



LEKWA TEEMANE LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2016

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

General Information

| | |
|--|---|
| Legal form of entity | Municipality (MFMA) |
| Nature of business and principal activities | Provision of municipal services in terms of the Municipal Finance Management Act No. 56 of 2003 and Municipal Systems Act No. 32 of 2000. |
| Councillors | |
| Mayor | Clr. K. Palangangwe |
| Councillors | Clr. M. Majikela Clr. A. Buys Clr. T. Mokgosi Clr. L.M. Segola Clr. P. Modise Clr. A. N. Ngezi Clr. G. Pencil Clr. M. A. Molete Clr. J. Joseph Clr. D. J. Muller Clr. M. I. Mabala Clr. I. M. Snyman Clr. J.M Dabampe (elected 10th August 2016) Clr.K.L. Duiker (elected 10th August 2016) Clr.S. Fortuin (elected 10th of August 2016) Clr.T. Gerber (elected 10th August 2016) Clr.S.K Majahe (elected 10th August 2016) Clr. M.M. Makame (elected 10th of August 2016) Clr. M.W Mseswa (elected 10th of August 2016) Clr.M.M. Pilane (elected 10th of August 2016) Clr.L.W. Tshweu (elected 10th of August 2016) Clr.E. Van Biljon (elected 10th of August 2016) |
| Grading of local authority | Grade 3 |
| Accounting Officer | Mr T Lesie |
| Chief Finance Officer (CFO) | Miss M P Polori |
| Registered office | Cnr Robyn & Dirkie Uys Street Christiana 2680 |
| Business address | Cnr Robyn & Dirkie Uys Street Christiana 2680 |
| Postal address | P. O. Box 13 Christiana 2680 |
| Bankers | Absa Bank |
| Auditors | Auditor-General of South Africa Registered Auditors |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

General Information

Attorneys

Lizel Venter Attorneys

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Index

The reports and statements set out below comprise the annual financial statements presented to the Lekwa-Teemane Local Municipality's Council:

| Index | Page |
|---|-------------|
| Accounting Officer's Responsibilities and Approval | 4 |
| Accounting Officer's Report | 5 - 7 |
| Statement of Financial Position | 8 |
| Statement of Changes in Net Assets | 10 |
| Statement of Financial Performance | 9 |
| Cash Flow Statement | 11 |
| Statement of Comparison of Budget and Actual Amounts | 12 - 15 |
| Appropriation Statement | 16 - 17 |
| Accounting Policies | 18 - 51 |
| Notes to the Annual Financial Statements | 52 - 85 |
| Appendixes: | |
| Appendix A: Schedule of External loans | 86 |
| Appendix C: Segmental analysis of Property, Plant and Equipment | 88 |
| Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act | 90 |

Abbreviations

| | |
|---------|--|
| COID | Compensation for Occupational Injuries and Diseases |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| FMG | Finance Management Grant |
| MSIG | Municipal System Improvement Grant |
| CoGTA | Department of Co-operative Governance & Traditional Affairs |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is dependent on five services that generate revenue namely rates, water, electricity, refuse and sanitation. It also gets equitable share from the government, which constitutes about 20% of its total income. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality's operations.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their will be presented based on their review.

The annual financial statements set out on pages 8 to 85, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016.

Accounting Officer
Mr Tebogo Lesie

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is engaged in provision of municipal services in terms of the Municipal Finance Management Act no.56 of 2003 and Municipal Systems Act No.32 of 2000. and operates principally in South Africa.

The municipality's contribution towards total income increased marginally as shown in the analysis below.

Proportion of income generated/raised

2016

| Type of Income | Proportion of contribution to income | Amount |
|----------------------|--------------------------------------|-------------|
| Service charges | 48 % | 117 401 046 |
| Property rates | 5 % | 11 987 738 |
| Grants and Subsidies | 26 % | 62 865 106 |
| Traffic fines | 7 % | 18 985 200 |
| Rental of facilities | 1 % | 830 968 |
| Other income | 12 % | 30 170 024 |

2015

| Type of Income | Proportion of contribution to income | Amount |
|----------------------|--------------------------------------|-------------|
| Service charges | 45 % | 111 037 794 |
| Property rates | 4 % | 10 113 392 |
| Grants and subsidies | 24 % | 60 838 879 |
| Traffic fines | 11 % | 30 223 400 |
| Rental of facilities | 1 % | 785 372 |
| Other income | 14 % | 35 099 056 |

2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had a deficits of R14 727 763 (2014: R275,646,241) and current liabilities exceeded current assets by R230,999 906 (2013: R201,101,268). The municipality has a going concern challenge. However the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. Thus, the municipality's ability to continue as a going concern is dependent on the fact that, inter alia, the accounting officer continue to procure both internal and external funding for the ongoing operations for the municipality.

3. Subsequent events

- The term for the current Councillors ended on 9th of August 2016 in terms of section 26 of the Municipal Structures Act.
- The contract for the Technical Services Director was terminated with effect from 19 July 2016.

4. Accounting Officer & Other Relevant Officials's interest in contracts

The municipality has a policy relating to declaration of interest in contracts and other related transactions. This was adhered to in that relevant officials with interests in SCM related transactions declared (both potential and existing) declared their interests.

5. Accounting policies

The annual financial statements were prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury, including any interpretation and directives.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Officer's Report

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all his activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a regular basis.

Council

The Council:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Remuneration

The upper limits of the remuneration of the councillors are determined in terms of the Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required of him by the Remunerations of Public Office Bearers Act No. 20 of 1998.

Committee meetings

The accounting officer meets on a regular basis with the Mayor and Chairpersons of Portfolio Committees.

Portfolio Committee Chairpersons have access to all members of management (Section 56 Managers) of the municipality.

Audit and risk committee

The Chairperson of the audit committee is an independent audit committee member. The committee met on a regular basis during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, Dr. Ruth Mompoti District Municipality must appoint members of the shared Audit Committee. Thus, more information with regards to the composition of the shared audit committee, its operations and sub-committees should be covered in the district municipality's annual financial statements.

Internal audit

The municipality has a shared internal audit function, based at the district municipality (as highlighted above). This is in compliance with the Municipal Finance Management Act, 2003, as it is a permitted arrangement.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Officer's Report

7. Interest in controlled entities

| Name of controlled entity | Country of incorporation if not the RSA | Net Assets |
|--|--|------------|
| Lekwa Teemane Development Agency (Pty) Ltd | | 341 071 |

The controlled entity is currently in the Establishment Phase. Major operations will commence as soon as the Establishment Phase is complete. However, engagements with the various stakeholders (for various transactions relating to the Agency's operations) are taking place.

Details of the municipality's investment in controlled entity are set out in note 7.

8. Bankers

The municipality's bankers did not change during the current year.

9. Auditors

Auditor-General of South Africa will continue to audit the books of the municipality as it is a Constitutional Mandate for them to do so.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---------|--------------------|--------------------|
| ASSETS | | | |
| Current Assets | | | |
| Inventories | 12 | 99 131 | 867 118 |
| Other financial assets | 8 | 64 633 | 70 304 |
| Traffic fines receivable | 9 | 3 717 160 | 3 439 391 |
| Trade and other receivables (exchange transactions) | 13 | 775 559 | 217 389 |
| Receivables from non-exchange transactions | 14 | 1 100 800 | 1 164 546 |
| VAT receivable | 15 | - | 5 157 917 |
| Consumer debtors (exchange transactions) | 16 | 21 209 919 | 18 698 637 |
| Money Market Investments | 11 | 617 517 | 1 719 326 |
| | | 27 584 719 | 31 334 628 |
| Non-Current Assets | | | |
| Investment Property | 3 | 26 321 836 | 25 872 289 |
| Property Plant and Equipment | 4 | 345 219 032 | 350 162 984 |
| Heritage Assets | 5 | 170 000 | 170 000 |
| Intangible assets | 6 | 363 688 | 663 329 |
| Investments in controlled entities | 7 | 20 100 | 20 100 |
| Long Term Debtors | | 5 110 954 | 2 085 525 |
| | | 377 205 610 | 378 974 227 |
| TOTAL ASSETS | | 404 790 329 | 410 308 855 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Other Interest & Non-Interest Bearing Liabilities | 18 | 5 719 415 | 5 719 415 |
| Finance lease obligation | 19 | 1 431 373 | 700 530 |
| Trade and other payables (exchange transaction) | 22 | 241 720 914 | 216 527 813 |
| VAT payable | | 6 012 835 | - |
| Consumer deposits | 24 | 1 183 074 | 1 101 157 |
| Employee benefit obligation | 10 | 765 000 | 761 000 |
| Unspent conditional grants | 20 | 600 000 | 6 761 678 |
| Provisions | 21 | 357 000 | 475 000 |
| Bank overdraft | 17 | 278 014 | 389 303 |
| | | 258 067 625 | 232 435 896 |
| Non-Current Liabilities | | | |
| Finance lease obligation | 19 | 943 716 | 2 375 090 |
| Employee benefit obligation | 10 | 23 941 000 | 21 983 000 |
| Provisions | 21 | 10 378 201 | 9 922 829 |
| | | 35 262 917 | 34 280 919 |
| TOTAL LIABILITIES | | 293 330 542 | 266 716 815 |
| NET ASSETS | | 111 459 787 | 143 592 040 |
| NET ASSETS | | | |
| Accumulated surplus | | 111 459 787 | 143 592 040 |

* See Note 2 & 46

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---------|----------------------|----------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 27 | 117 401 046 | 111 037 794 |
| Rental of facilities and equipment | | 830 968 | 785 372 |
| Licences and Permits | | 1 610 761 | 1 665 939 |
| Interest on debtors | | 24 550 613 | 23 312 642 |
| Fair Value Adjustments | | 443 876 | 2 358 832 |
| Sundry Income | | 1 950 552 | 2 469 962 |
| Insurance Claims | | 118 109 | 3 662 551 |
| Interest received - investment | 35 | 299 414 | 277 621 |
| Total revenue from exchange transactions | | 147 205 339 | 145 570 713 |
| Revenue from non-exchange transactions | | | |
| <u>Taxation revenue</u> | | | |
| Property rates | 26 | 11 987 738 | 10 113 392 |
| <u>Transfer revenue</u> | | | |
| Government grants & subsidies | 28 | 63 148 075 | 60 838 878 |
| Traffic Fines | | 18 985 200 | 30 223 400 |
| Donations Received | | 1 196 700 | 1 351 509 |
| Total revenue from non-exchange transactions | | 95 317 713 | 102 527 179 |
| Total revenue | 25 | 242 523 052 | 248 097 892 |
| Expenditure | | | |
| Employee related costs | 32 | (48 254 354) | (48 245 391) |
| Remuneration of councillors | 33 | (4 394 496) | (3 920 828) |
| Depreciation and amortisation | 36 | (17 959 914) | (22 873 009) |
| Finance costs | 37 | (8 926 686) | (6 981 299) |
| Debt Impairment | 34 | (55 741 604) | (95 972 910) |
| Sundry expenses | | - | (9 080 386) |
| Repairs and maintenance | | (3 134 206) | (5 170 261) |
| Bulk purchases | 40 | (63 829 429) | (54 846 225) |
| Contracted services | 39 | (6 086 216) | (6 805 759) |
| Loss on disposal | | (4 946 135) | (231 661 803) |
| General Expenses | 30 | (44 022 775) | (38 186 262) |
| Total expenditure | | (257 295 815) | (523 744 133) |
| Operating deficit | 31 | (14 772 763) | (275 646 241) |
| Deficit for the year | | (14 772 763) | (275 646 241) |

* See Note 2 & 46

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---------------------|--------------------|
| Opening balance as previously reported | 495 113 996 | 495 113 996 |
| Adjustments | | |
| Prior year adjustments (Note 46) | (75 875 715) | (75 875 715) |
| Restated Balance at 01 July 2014 | 419 238 281 | 419 238 281 |
| Changes in net assets | | |
| Surplus for the year | (275 646 241) | (275 646 241) |
| Total changes | (275 646 241) | (275 646 241) |
| Restated Balance at 01 July 2015 | 143 592 040 | 143 592 040 |
| Changes in net assets | | |
| Other Adjustments(note 46) | (17 359 490) | (17 359 490) |
| Net income (losses) recognised directly in net assets | (17 359 490) | (17 359 490) |
| Surplus for the year | (14 772 763) | (14 772 763) |
| Total recognised income and expenses for the year | (32 132 253) | (32 132 253) |
| Total changes | (32 132 253) | (32 132 253) |
| Balance at 30 June 2016 | 111 459 787 | 111 459 787 |
| Note(s) | | |

Correction of Previous Years Errors

The adjustment mainly relates to Property Plant and Equipment as a result of previously recognised assets that could not be verified at year end see note 46 for more detail.

* See Note 2 & 46

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---------|----------------------------|-----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Receipts from customers | | 158 654 134 | 125 391 228 |
| Grants | | 56 964 000 | 62 234 955 |
| Investment Income | | 299 414 | 277 621 |
| | | <u>215 917 548</u> | <u>187 903 804</u> |
| Payments | | | |
| Employee costs | | (50 686 850) | (51 930 387) |
| Suppliers | | (136 683 294) | (338 543 973) |
| Finance costs | | (8 926 686) | (6 981 299) |
| | | <u>(196 296 830)</u> | <u>(397 455 659)</u> |
| Net cash flows from operating activities | 41 | <u>19 620 718</u> | <u>(209 551 855)</u> |
| Cash flows from investing activities | | | |
| Purchase of property plant and equipment | 4 | (19 898 194) | (22 564 210) |
| Proceeds from sale of property plant and equipment | 4 | - | 231 661 804 |
| Purchase of other intangible assets | 6 | (15 609) | (35 999) |
| Proceeds from sale of money market investments | | 1 104 905 | 278 486 |
| Repayment of Loan | | - | (4 075 384) |
| Net cash flows from investing activities | | <u>(18 808 898)</u> | <u>205 264 697</u> |
| Cash flows from financing activities | | | |
| Finance lease payments | | (700 531) | 2 162 579 |
| Net increase/(decrease) in cash and cash equivalents | | <u>111 289</u> | <u>(2 124 579)</u> |
| Cash and cash equivalents at the beginning of the year | | (389 303) | 1 735 276 |
| Cash and cash equivalents at the end of the year | 17 | <u>(278 014)</u> | <u>(389 303)</u> |

* See Note 2 & 46

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|--------------------|-------------|--------------------|--|---|---|
| Figures in Rand | | | | | | |
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Service charges | 122 723 520 | - | 122 723 520 | 117 401 046 | (5 322 474) | This was mainly caused by the fact the budgeted consumption units were slightly lower than the actual units consumed. |
| Rental of facilities and equipment | 520 422 | - | 520 422 | 830 968 | 310 546 | Collected amounts were greater than the budgeted amounts due to increased hall bookings |
| Administration and management fees received | 1 969 970 | - | 1 969 970 | 1 610 761 | (359 209) | The variance was mainly caused by the fact that the licencing office upgrade and operation of the new testing centre were delayed due to logistical reasons |
| Interest on Debtors | 25 245 000 | - | 25 245 000 | 24 550 613 | (694 387) | Difference is due to an increase in customers not settling their debts on time |
| Fair Value Adjustments | 1 500 000 | - | 1 500 000 | 443 876 | (1 056 124) | The values of the investment property did not increase as much as initially anticipated due to the subdued property prices |
| Sundry Income | 5 662 712 | - | 5 662 712 | 1 950 552 | (3 712 160) | Sundry activities were reduced to focus on service delivery |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|--------------------|-------------|---------------------|------------------------------------|--|---|
| Figures in Rand | | | | | | |
| Insurance Claims | 134 644 | - | 134 644 | 118 109 | (16 535) | Acceptable variance |
| Interest received - investment | 27 681 | - | 27 681 | 299 414 | 271 733 | Difference is due to improved cash management and increases in fines collected |
| Total revenue from exchange transactions | 157 783 949 | - | 157 783 949 | 147 205 339 | (10 578 610) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 18 000 000 | - | 18 000 000 | 11 987 738 | (6 012 262) | Difference is due to the rebate given to farmers |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 68 969 401 | - | 68 969 401 | 63 148 075 | (5 821 326) | Difference due to withdrawal of the District operational grant for 8 million rand |
| Fines, Penalties and Forfeits | 32 500 500 | - | 32 500 500 | 18 985 200 | (13 515 300) | Collected fines were less than anticipated due to increased public awareness of the cameras |
| Other transfer revenue 2 | - | - | - | 1 196 700 | 1 196 700 | |
| Total revenue from non-exchange transactions | 119 469 901 | - | 119 469 901 | 95 317 713 | (24 152 188) | |
| Total revenue | 277 253 850 | - | 277 253 850 | 242 523 052 | (34 730 798) | |
| Expenditure | | | | | | |
| Personnel | (57 309 342) | - | (57 309 342) | (48 254 354) | 9 054 988 | A number of the budgeted positions were not filled due to the cash flow problems. |
| Remuneration of councillors | (4 400 000) | - | (4 400 000) | (4 394 496) | 5 504 | Acceptable variance. |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|-------------------------------|--------------------|-------------|---------------------|--|---|--|
| Figures in Rand | | | | | | |
| Depreciation and amortisation | (50 507 668) | - | (50 507 668) | (17 959 914) | 32 547 754 | Difference is due to old assets that are still in good working condition though they are becoming fully depreciated |
| Finance costs | (1 520 000) | - | (1 520 000) | (8 926 686) | (7 406 686) | Variance is due to leases that finished before the end of the year |
| Bad debts written off | (64 600 000) | - | (64 600 000) | (55 741 604) | 8 858 396 | Acceptable variance |
| Collection costs | (8 363) | - | (8 363) | - | 8 363 | Acceptable variance |
| Repairs and maintenance | (5 781 217) | - | (5 781 217) | (3 134 206) | 2 647 011 | Regular replacement of pumps as well as scheduled servicing of assets in the prior years has reduced the maintenance of assets |
| Bulk purchases | (71 580 156) | - | (71 580 156) | (63 829 429) | 7 750 727 | The anticipated purchases were significantly less than anticipated due to monitoring of distribution losses |
| Contracted Services | (12 361 793) | - | (12 361 793) | (6 086 216) | 6 275 577 | Improved contract management and cashflow management |
| Cost of housing sold | - | - | - | (4 946 135) | (4 946 135) | Most of the sampling was done in the prior years and this was used as a basis of the budget amount |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|-------------|----------------------|--|---|--|
| Figures in Rand | | | | | | |
| General Expenses | (53 016 498) | - | (53 016 498) | (44 022 775) | 8 993 723 | Difference is due to improved cost management and cash management |
| Total expenditure | (321 085 037) | - | (321 085 037) | (257 295 815) | 63 789 222 | |
| Deficit before taxation | (43 831 187) | - | (43 831 187) | (14 772 763) | 29 058 424 | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | (43 831 187) | - | (43 831 187) | (14 772 763) | 29 058 424 | |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Appropriation Statement

Figures in Rand

| | Original budget | Final adjustments budget | | Final budget | Actual outcome | | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|----------------------|--------------------------------|----------|----------------------|----------------------|----------|---------------------|---|--|
| 2016 | | | | | | | | | |
| Financial Performance | | | | | | | | | |
| Property rates | 18 000 000 | - 18 000 000 | - | 18 000 000 | 11 987 738 | | (6 012 262) | 67 % | 67 % |
| Service charges | 122 723 520 | - 122 723 520 | - | 122 723 520 | 117 401 046 | | (5 322 474) | 96 % | 96 % |
| Investment revenue | 27 681 | - 27 681 | - | 27 681 | 299 414 | | 271 733 | 1 082 % | 1 082 % |
| Transfers recognised - operational | 50 291 645 | - 50 291 645 | - | 50 291 645 | 44 551 034 | | (5 740 611) | 89 % | 89 % |
| Other own revenue | 67 398 604 | - 67 398 604 | - | 67 398 604 | 49 568 670 | | (17 829 934) | 74 % | 74 % |
| Total revenue (excluding capital transfers and contributions) | 258 441 450 | - 258 441 450 | - | 258 441 450 | 223 807 902 | | (34 633 548) | 87 % | 87 % |
| Employee costs | (57 309 342) | - (57 309 342) | - | (57 309 342) | (48 254 354) | - | 9 054 988 | 84 % | 84 % |
| Remuneration of councillors | (4 400 000) | - (4 400 000) | - | (4 400 000) | (4 394 496) | - | 5 504 | 100 % | 100 % |
| Debt impairment | (64 600 000) | - (64 600 000) | - | (64 600 000) | (55 741 604) | - | 8 858 396 | 86 % | 86 % |
| Depreciation and asset impairment | (50 507 668) | - (50 507 668) | - | (50 507 668) | (17 959 914) | - | 32 547 754 | 36 % | 36 % |
| Finance charges | (1 520 000) | - (1 520 000) | - | (1 520 000) | (8 926 686) | - | (7 406 686) | 587 % | 587 % |
| Materials and bulk purchases | (71 580 156) | - (71 580 156) | - | (71 580 156) | (63 829 429) | - | 7 750 727 | 89 % | 89 % |
| Other expenditure | (71 167 871) | - (71 167 871) | - | (71 167 871) | (58 189 332) | - | 12 978 539 | 82 % | 82 % |
| Total expenditure | (321 085 037) | - (321 085 037) | - | (321 085 037) | (257 295 815) | - | 63 789 222 | 80 % | 80 % |
| Surplus/(Deficit) | (62 643 587) | - (62 643 587) | - | (62 643 587) | (33 487 913) | | 29 155 674 | 53 % | 53 % |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|---------------------|---|--------------------------|--|---|---------------------|---------------------|--------------------------|-------------------|-------------------------------------|--|
| Transfers recognised - capital | 18 812 400 | - | 18 812 400 | - | | 18 812 400 | 18 715 150 | | (97 250) | 99 % | 99 % |
| Surplus (Deficit) after capital transfers and contributions | (43 831 187) | - | (43 831 187) | - | | (43 831 187) | (14 772 763) | | 29 058 424 | 34 % | 34 % |
| Surplus/(Deficit) for the year | (43 831 187) | - | (43 831 187) | - | | (43 831 187) | (14 772 763) | | 29 058 424 | 34 % | 34 % |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Statements and Interpretations Not Yet Effective

GRAP Standards

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:

- GRAP 2 - Service concession arrangements (grantor);
- GRAP 20 - Related Party Disclosures.
- GRAP 108 - Statutory receivables;
- GRAP 109 - Accounting by Principals and Agents;
- .

The foregoing standards are not yet effective as the Minister of Finance has not yet determined the effective dates. .

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts presented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods if the revision estimate both the current and future periods.

In the process of applying the municipality's policies, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements and these are consistent with the previous period:

Impairment of trade and other receivables

The municipality assesses its trade and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether the observable data indicate a measurable decrease in the estimated future cash flows from a financial asset. The calculation is primarily based on the collection rate of the amount due per individual debtor, as required by GRAP Standards.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Available-for-sale financial assets

The municipality follows the guidance of GRAP Standards to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade and other receivables are assumed to approximate their fair values.

Impairment testing

The municipality tests the carrying value of assets for impairment when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply, demand, together with economic factors such as interest and inflation rates.

Provisions and contingent liabilities

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 - Provisions.

Post retirement medical aid benefit

The cost of post retirement medical aid benefit is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Additional information is disclosed in Note 10.

Effective interest rate

The municipality uses the prime interest rate plus a reasonable adjustment to discount future cash flows, where necessary.

In addition to this, where Investment Certificates were not received, management estimated the amount of interest due or earned on the investment, based on the available data.

Classification as investment property

The municipality regularly reviews its property portfolio and determine which items of land and buildings are held to earn rental revenue or for capital appreciation. Land and buildings fulfilling these requirements have been classified as investment property, whilst the remainder of the portfolio have either been classified as property, plant and equipment or inventory depending on management's intention in dealing with these properties.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and the Carrying Value of Items of Property, Plant and Equipment

The estimation of useful lives of assets is based on management's judgement. Management considers the impact of technology, availability of capital funding, service requirements and/or required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of the useful lives, and what their condition will be at that time.

Further, when the municipality fully complied with GRAP 17, to determine the value of the assets where the cost amounts were not available, management used the current market values of similar assets and adjusted that using condition assessment. Condition assessment was based on managements' judgement.

Water Inventory and Cost of Purifying Water

Water Inventory: The amount of water in the municipality's reservoirs is based on management judgement. Management make use of engineers to perform these estimates.

Cost of Purifying Water: This is also based on management judgement by reference to the market researches available, adjusted by inflation rates (CPI), if the research was conducted more than a year ago. Reference is also made to Water Processing Bodies.

1.5 Investment Property

Investment Property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment Property is recognised as an asset when and only when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment Property is initially measured at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.5 Investment Property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value mode.

When classification is difficult, further criteria is used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, depending on the nature of the scenario

1.6 Property Plant and Equipment

Property Plant and Equipment are tangible items (including infrastructure assets) that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property plant and equipment is recognised as an asset if and only if:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property Plant and Equipment is initially measured at cost.

The cost of an item of property plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. For asset that were acquired at the latter of 30 June 2012 and adoption of GRAP Standards, cost was based on the Net Replacement Cost of the assets as at 30 June 2012, when the GRAP Standards were adopted for the first time.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property plant and equipment have different useful lives, they are accounted for as separate items (major components) of property plant and equipment.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.6 Property Plant and Equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property plant and equipment are accounted for as property plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

Property Plant and Equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property plant and equipment have been assessed as follows:

| <u>Item</u> | <u>Average useful life</u> |
|--|-----------------------------------|
| Buildings | 15-40 years |
| Plant and machinery | 3-15 years |
| Furniture and fittings | 5-10 years |
| Motor vehicles | 5-7 years |
| Office equipment | 3-10 years |
| Computer equipment | 3-5 years |
| Infrastructure | |
| • Electricity | 15-70 years |
| • Roads, Pavement, Bridges and Storm Water | 10-80 years |
| • Sanitation | 6-11 years |
| Community | |
| • Graveyard Site | 15-40 years |
| • Recreational facilities | 10-40 years |
| • Sport facilities | 15-50 years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.6 Property Plant and Equipment (continued)

The gain or loss arising from the derecognition of an item of property plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.7 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property plant and equipment. The estimated cost to rehabilitate the landfill sites is performed by qualified engineers, using various assumptions. A provision is then made using those costs. The related cost can either be measured at cost or using the revaluation model.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.8 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.8 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| <u>Item</u> | <u>Useful life</u> |
|--------------------------|--------------------|
| Computer software, other | 3-5 years |

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.9 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.9 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.10 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.11 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.11 Financial instruments (continued)

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

A financial asset is past due when a counterpart has failed to make a payment when contractually due.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.11 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| <u>Class</u> | <u>Category</u> |
|---|--|
| Trade and Other Receivables (exchange and non-exchange) | Financial asset measured at amortised cost |
| Cash and Cash Equivalents | Financial asset measured at amortised cost |
| Money Market Instruments | Financial asset measured at amortised cost |
| Other Financial Assets | Financial asset measured at fair value |

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| <u>Class</u> | <u>Category</u> |
|---|--|
| Trade and Other Payables from exchange transactions | Financial liability measured at amortised cost |
| Bank overdraft and borrowings | Financial liability measured at amortised cost |

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.11 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost: If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.11 Financial instruments (continued)

Financial assets measured at cost: If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.11 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.11 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.12 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Finance leases - lessee

The municipality leases certain property, plant and equipment. Leases of property, plant and equipment where the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the future minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges are included in other long term payables. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. The municipality will not incur a foreign currency lease liability other than that allowed by the MFMA Act (Act 56 of 2003).

Any contingent rents are expensed in the period in which they are incurred.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.12 Leases (continued)

Operating leases - lessor

When assets are leased out under an operating lease, the asset is included in the Statement of Financial Position based on the nature of the asset.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Operating leases are those leases which do not fall within the scope of the above definition of finance leases. Payments made under operating leases are charged against income on a straight line basis over the period of the lease.

1.13 Inventories

Inventories, which consists of consumables, water and stands for sale, are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.13 Inventories (continued)

Stands for Sale, Water Inventory and Meters

The municipality changed its accounting policy for inventories in 2016. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 12. The transitional provision expires on .

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2016 and inventories has accordingly been recognised at provisional amounts, as disclosed in 12.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.14 Going Concern Assumptions

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.14 Going Concern Assumptions (continued)

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.15 Impairment of Property, Plant and Equipment

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.15 Impairment of Property, Plant and Equipment (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.15 Impairment of Property, Plant and Equipment (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for any asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.16 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.16 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.16 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.17 Incomplete Construction Work (Work In Progress)

Incomplete construction work is stated at historical costs. Historical costs relates to accumulation of capital amounts incurred to the date of commission. Depreciation will only commence when the asset is available for use, after commissioning.

1.18 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programs are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.18 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the entity recognise the undercounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undercounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programs) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programs as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality account for the plan as if it was a defined contribution plan.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.18 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.18 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.18 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.18 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement medical aid benefit upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.19 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.19 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are measured at the present value of the expenditure expected to be incurred to settle the obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

Long Service Award

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality.

The municipality's net obligation in respect of long service awards is the amount of future benefits that employees have earned in return for their service in the current and prior periods less an amounts paid during the current period. The benefit is discounted to determine its present value.

e municipality has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly.

1.20 Revenue from exchange transactions

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximated the consideration received or receivable.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, trade discounts, returns and volume rebates.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.20 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest, royalties, dividends, Service Charges, Prepaid Electricity & other income

Interest earned on investments is recognised on a time proportion basis that takes into account the effective yield on the investments. Interest earned on outstanding debtors is recognised on a time proportion basis.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimated consumption's are made monthly when meters have not been read. The estimates of consumption are recognised as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as against or for revenue in the invoicing period. .

Income from agency services: Income from agency services is recognised on a monthly basis once the income collected/received on behalf of agents has been quantified. The income is recognised in terms of the agency agreement.

1.21 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. The inflow of resources from a non-exchange transaction shall be recognised as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Services in-kind

Services in-kind are recognised as revenue and as an asset when the recognition criteria is met.

1.22 Value Added Tax

The municipality accounts for Value Added Tax (VAT) on a cash basis. The municipality is liable to account for VAT at the standard rate of 14% in terms of section 7(1)(a) of the VAT Act in respect of supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.23 Pre-paid electricity

Revenue from the sale of electricity using pre-paid meter cards is recognised based on consumption.

The consumption is determined on the following trend analysis:

- During the winter season (May, June, July and August), the municipality tend to sell more units as the temperatures will be generally low.
- The municipality calculates the average sales for the four months. The resultant average units are compared to the sales for May and August for reasonableness. If the average sales in units are within a reasonable range or threshold of the May and August sales, the average is deemed reasonable. If it is not within the reasonable range obtained for the two months, reasons for the significant variances are obtained and accounted for in appropriately, which may be in the form of an adjustment to the revenue for pre-paid electricity. Thus, exceptional items are adjusted for.
- The resultant reasonable average consumption rate is used as an estimate for the consumption of pre-paid electricity for the month of June. The actual units sold in June are then compared to the estimated consumption for June.

If the actual quantity sold is more than the estimated consumption for June, pre-paid electricity revenue sales for June is then based on the estimated consumption units and the excess is deferred to July of the ensuing period.

If the actual quantity sold in June is less than the estimated consumption for June, pre-paid electricity for June is then based on the actual units sold.

1.24 Finance income and expenses

Finance income is recognised on a time-proportion basis using the effective interest method. It is recognised as it accrues in the surplus or deficit for the year. Dividend income is also recognised in the surplus or deficit on the date the municipality has a right to receive payment, which in the case of quoted shares is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit and loss and impairment losses recognised on financial assets.

1.25 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.26 Comparative figures

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification is disclosed.

Where accounting errors have been identified in the current financial year, the correction is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.27 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division or permitted by the MFMA.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.28 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.29 Irregular expenditure

Irregular expenditure that is contrary to the Municipal Finance Management Act (Act 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority, it is treated as a receivable until it is written off as irrecoverable.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant program/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.30 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.31 Internal reserves

1.32 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

1.33 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012-07-01 to 2013-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.34 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.35 Donations and contributions

Revenue from donations is recognised as revenue when: (1) it is probable that the economic benefits or services potential associated with the transaction will flow to the municipality, (2) the amount of revenue can be measured reliably, (3) any restrictions associated with the donation have been met.

Revenue from donations is measured at the fair value of the consideration received or receivable which is the cash amount received or where the donation is in the form of property, plant and equipment, the fair value of the property, plant and equipment received or receivable.

1.36 Consumer Deposits

Consumer deposits are charged when new water and/or electricity accounts are opened. The amounts vary per consumer and are approved by Council as part of the tariff structure.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the new or revised standards.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2016 is as disclosed in the notes to the financial statements :

3. Investment Property

| | 2016 | | | 2015 | | |
|---------------------|------------|---|----------------|------------|---|----------------|
| | Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 26 321 836 | - | 26 321 836 | 25 872 289 | - | 25 872 289 |

Reconciliation of investment property - 2016

| | Opening balance | Fair value adjustments | Total |
|---------------------|-----------------|------------------------|------------|
| Investment property | 25 872 289 | 449 547 | 26 321 836 |

Reconciliation of investment property - 2015

| | Opening balance | Transfers | Fair value adjustments | Total |
|---------------------|-----------------|-----------|------------------------|------------|
| Investment property | 23 409 054 | 110 000 | 2 353 235 | 25 872 289 |

Pledged as security

No investment properties are pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the market values was 30 June 2016. The determination of the market values were performed by an independent valuer, DDP Valuers [a Professional Valuer, registered with the South African Council for the Property Valuers Professions]. DDP valuers is not connected to the municipality and has recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use. The process to determination of market values took into account the following assumptions, among other things, (a) selling prices of similar recent property sales in Christiana, (b) age and current condition of the buildings, (c) use of the building, (d) existing current lease agreement in place, (e) discount rate in line with the municipality estimated cost of borrowings and (f) any other key assumptions assumptions deemed necessary

There are no restrictions on the realisability of the investment property or the remittance of revenue generated by investment properties. Valuations were done by an independent sworn appraiser.

Amounts recognised in surplus and deficit for the year.

| | | |
|---|---------|-----------|
| Rental revenue from investment property | 830 968 | 763 088 |
| Fair value adjustment | 449 547 | 2 353 235 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015

4. Property Plant and Equipment

| | 2016 | | | 2015 | | |
|--|--------------------|---|--------------------|--------------------|---|--------------------|
| | Cost | Accumulated depreciation and accumulated impairment | Carrying value | Cost | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 53 850 182 | - | 53 850 182 | 53 850 182 | - | 53 850 182 |
| Buildings | 13 937 601 | (3 582 624) | 10 354 977 | 13 966 139 | (3 072 571) | 10 893 568 |
| Plant and Machinery | 5 732 806 | (2 871 516) | 2 861 290 | 6 244 228 | (2 445 531) | 3 798 697 |
| Furniture and fixtures | 1 675 816 | (849 810) | 826 006 | 1 685 198 | (724 238) | 960 960 |
| Motor vehicles | 7 587 329 | (4 645 473) | 2 941 856 | 10 071 726 | (7 545 301) | 2 526 425 |
| Office equipment | 4 161 592 | (2 647 466) | 1 514 126 | 4 959 843 | (2 319 278) | 2 640 565 |
| Computer equipment | 1 481 928 | (780 065) | 701 863 | 1 633 740 | (734 454) | 899 286 |
| Community | 10 614 022 | (2 014 598) | 8 599 424 | 10 614 022 | (1 585 365) | 9 028 657 |
| Electricity | 113 528 744 | (28 406 325) | 85 122 419 | 108 160 462 | (24 592 987) | 83 567 475 |
| Roads, Pavement, Bridges and Storm Water | 212 705 700 | (55 278 567) | 157 427 133 | 216 321 589 | (47 856 493) | 168 465 096 |
| Work In Progress | 16 920 926 | - | 16 920 926 | 8 668 311 | - | 8 668 311 |
| Landfill Sites | 6 393 626 | (2 294 796) | 4 098 830 | 6 393 626 | (1 529 864) | 4 863 762 |
| Total | 448 590 272 | (103 371 240) | 345 219 032 | 442 569 066 | (92 406 082) | 350 162 984 |

Reconciliation of property plant and equipment - 2016

| | Opening balance | Additions | Depreciation | Disposals/Corrections | Transfers | Total |
|--|--------------------|-------------------|---------------------|-----------------------|-------------|--------------------|
| Land | 53 850 182 | - | - | - | - | 53 850 182 |
| Buildings | 10 893 568 | - | (526 034) | (12 557) | - | 10 354 977 |
| Plant and Machinery | 3 798 697 | - | (631 237) | (306 170) | - | 2 861 290 |
| Furniture and Fittings | 960 960 | 95 430 | (178 155) | (52 229) | - | 826 006 |
| Motor Vehicles | 2 526 425 | 1 196 700 | (660 169) | (121 100) | - | 2 941 856 |
| Office Equipment | 2 640 565 | 69 379 | (1 183 662) | (12 156) | - | 1 514 126 |
| Computer Equipment | 899 286 | 267 299 | (287 424) | (177 298) | - | 701 863 |
| Community | 9 028 657 | - | (429 233) | - | - | 8 599 424 |
| Electricity | 83 567 475 | 221 265 | (4 520 342) | (1 690 138) | 7 544 159 | 85 122 419 |
| Roads, Pavement, Bridges and Storm Water | 168 465 096 | - | (8 463 476) | (2 574 487) | - | 157 427 133 |
| Work In Progress | 8 668 311 | 15 796 774 | - | - | (7 544 159) | 16 920 926 |
| Landfill Sites | 4 863 762 | - | (764 932) | - | - | 4 098 830 |
| Total | 350 162 984 | 17 646 847 | (17 644 664) | (4 946 135) | - | 345 219 032 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

4. Property Plant and Equipment (continued)

Reconciliation of property plant and equipment - 2015

| | Opening balance | Additions | Depreciation | Disposals | Transfer | Total |
|--|--------------------|-------------------|---------------------|----------------------|------------------|--------------------|
| Land | 53 910 182 | - | - | - | (60 000) | 53 850 182 |
| Buildings | 11 469 602 | - | (526 034) | - | (50 000) | 10 893 568 |
| Plant and equipment | 4 273 460 | 157 215 | (631 978) | - | - | 3 798 697 |
| Furniture and fixtures | 1 151 412 | 16 000 | (206 452) | - | - | 960 960 |
| Motor vehicles | 2 173 187 | 1 757 689 | (1 404 451) | - | - | 2 526 425 |
| Office equipment | 758 034 | 2 944 367 | (1 061 836) | - | - | 2 640 565 |
| Computer equipment | 882 809 | 294 200 | (277 723) | - | - | 899 286 |
| Community | 9 457 890 | - | (429 233) | - | - | 9 028 657 |
| Electricity | 81 759 253 | 6 103 046 | (4 294 824) | - | - | 83 567 475 |
| Roads, Pavement, Bridges and Storm Water | 403 048 623 | 6 563 323 | (12 993 818) | (231 661 804) | 3 508 772 | 168 465 096 |
| Work In Progress | 7 099 526 | 5 077 557 | - | - | (3 508 772) | 8 668 311 |
| Landfill Sites | 5 628 694 | - | (764 932) | - | - | 4 863 762 |
| | 581 612 672 | 22 913 397 | (22 591 281) | (231 661 804) | (110 000) | 350 162 984 |

Pledged as security

The municipality does not have any assets pledged as security:

Assets subject to finance lease (Net carrying amount)

| | | |
|------------------|-----------|-----------|
| Office equipment | 2 222 467 | 1 262 296 |
|------------------|-----------|-----------|

Useful lives

The useful lives of the assets have been reviewed to ensure that they more accurately reflect the actual expected life spans of the assets within the municipality. In all of the cases, the useful lives were not adjusted as they were found to be reasonable.

Property Register

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Heritage Assets

| | 2016 | | | 2015 | | |
|----------------------|---------|--------------------------|----------------|---------|--------------------------|----------------|
| | Cost | Accumulated amortisation | Carrying value | Cost | Accumulated amortisation | Carrying value |
| Historical Monuments | 170 000 | - | 170 000 | 170 000 | - | 170 000 |

Reconciliation of heritage assets - 2016

| | Opening balance | Total |
|----------------------|-----------------|---------|
| Historical monuments | 170 000 | 170 000 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

5. Heritage Assets (continued)

Reconciliation of heritage assets - 2015

| | Opening balance | Total |
|----------------------|-----------------|---------|
| Historical monuments | 170 000 | 170 000 |

6. Intangible assets

| | 2016 | | | 2015 | | |
|-------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 1 515 530 | (1 151 842) | 363 688 | 1 554 827 | (891 498) | 663 329 |

Reconciliation of intangible assets - 2016

| | Opening balance | Additions | Amortisation | Total |
|-------------------|-----------------|-----------|--------------|---------|
| Computer software | 663 329 | 15 609 | (315 250) | 363 688 |

Reconciliation of intangible assets - 2015

| | Opening balance | Additions | Amortisation | Total |
|-------------------|-----------------|-----------|--------------|---------|
| Computer software | 909 057 | 35 999 | (281 727) | 663 329 |

Pledged as security

The municipality does not have any intangible assets pledged as security:

Restricted title

There is no restriction on the title of Intangible Assets.

Intangible Assets have finite useful lives and are amortized over the useful lives

7. Investments in controlled entities

| Name of company | Held by | % holding 2016 | % holding 2015 | Carrying amount 2016 | Carrying amount 2015 |
|--|---------|----------------|----------------|----------------------|----------------------|
| Lekwa Teemane Development Agency (Pty) Ltd | | 100,00 % | 100,00 % | 20 100 | 20 100 |

The carrying amounts of controlled entities are shown at cost, net of impairment losses, if there are any impairment losses.

Controlled entities pledged as security

There is no controlled entity pledged as security.

8. Other financial assets

Designated at fair value

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|------------------|------------------|
| 8. Other financial assets (continued) | | |
| Listed shares | 64 633 | 70 304 |
| <u>Current assets</u> | | |
| Designated at fair value (Sanlam Shares) | 64 633 | 70 304 |
| <u>Financial assets at fair value</u> | | |
| <u>Fair values of financial assets measured or disclosed at fair value</u> | | |
| Listed Shares | 64 633 | 70 304 |
| This comprises of 1 058 shares held in Sanlam. The shares were valued based on the market value of the shares as at 30 June 2016, which was R61.02/share (2015: R66.54) | | |
| 9. Traffic Fines Receivable | | |
| Gross amount receivable | 65 697 580 | 50 753 188 |
| Impairment | (61 980 420) | (47 313 797) |
| | 3 717 160 | 3 439 391 |

The impairment of the traffic fines is based on a management estimate determined by considering the collection rate of issued fines as well as the success rate of appeals on issued fines

10. Employee benefit obligations

Defined benefit plan

The defined benefit plan is a post employment medical benefit plan.

Post retirement medical aid plan

The municipality operates a funded post employment health care defined benefit plan for qualifying employees. Employees of the municipality are members of Bonitas, Keyhealth and SAMWUMED medical aid schemes

The municipality is committed to pay 60% of the members' post employment medical aid contributions up to an amount that is currently capped at R3,618 per month. Under the plan, dependents of the former employees are entitled to continued membership of their medical aid scheme upon the death of the primary member. No other post-employment benefits are provided to these employees. As at the balance sheet date, the members of the medical aid entitled to the post employment medical scheme subsidy were 123 in service members and 24 pensioners.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligations were carried out at 30 June 2016 by One Pangea Consultants and Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service costs, were measured using the Projected Unit Credit Method.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

10. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value

| | | |
|---|---------------------|---------------------|
| Present value of the defined benefit obligation-wholly unfunded | (24 706 000) | (22 744 000) |
| Non-current liabilities | (23 941 000) | (21 983 000) |
| Current liabilities | (765 000) | (761 000) |
| | (24 706 000) | (22 744 000) |

The municipality does not have assets set aside for post-employment medical aid funding that qualify as plan assets in terms of the requirements of IAS19. As such no value has been ascribed to the fair value of plan assets and no other disclosure has been done relating to plan assets

Changes in the present value of the defined benefit obligation are as follows:

| | | |
|--|-------------------|-------------------|
| Opening balance | 22 744 000 | 20 585 000 |
| Benefits paid | (761 000) | (936 000) |
| Net expense recognised in the statement of financial performance | 2 723 000 | 3 095 000 |
| | 24 706 000 | 22 744 000 |

Net expense recognised in the statement of financial performance

| | | |
|--------------------------|------------------|------------------|
| Current service cost | 859 000 | 627 000 |
| Interest cost | 1 778 000 | 1 828 000 |
| Actuarial (gains) losses | 86 000 | 640 000 |
| | 2 723 000 | 3 095 000 |

Calculation of actuarial gains and losses

| | | |
|---------------------------------------|--------|---------|
| Actuarial (gains) losses – Obligation | 86 000 | 640 000 |
|---------------------------------------|--------|---------|

Key assumptions used

Assumptions used at the reporting date:

| | | |
|---|--------|--------|
| Discount rates used | 9,54 % | 7,95 % |
| Expected rate of return on assets | 7,19 % | 6,05 % |
| Expected rate of return on reimbursement rights | 8,69 % | 7,05 % |
| Actual return on reimbursement rights | 0,78 % | 0,84 % |

Demographic Assumptions: Normal Retirement Age (65 years); Fully accrued age (63 years); Age between husband and wife (Active members - 4 years, Pensioners - actual age used); Proportion married (Active members - 90%, Pensioners - actual married status used)

Decrement Assumptions: Mortality [Active members: SA(85 - 90), Pensioners: PA(90 - 92).

Continuation percentages: It was assumed that 100% of the deceased pensioners' spouses will continue with their membership.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

10. Employee benefit obligations (continued)

Other assumptions - Sensitivity Analysis

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

| | <u>One percentage point increase</u> | <u>One percentage point decrease</u> |
|---|--|--|
| Effect on the aggregate of the service cost and interest cost | 3 464 000 | 3 704 000 |
| Effect on defined benefit obligation | 27 863 000 | 22 187 000 |

Amounts for the current and previous four years are as follows:

| | 2016 R | 2015 R | 2014 R | 2013 R | 2012 R |
|----------------------------|------------|------------|------------|------------|------------|
| Defined benefit obligation | 24 706 000 | 22 744 000 | 20 585 000 | 19 310 000 | 23 932 000 |

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Multi-Employer and State Plans

The following are the defined benefit plans that the municipality's employees belong to:

- SAMWU Provident Fund
- Metropolitan Pension Fund
- South African Local Authorities (SALA) Pension Fund
- Municipal Gratuity Fund

These are not treated as defined benefit plans as defined by IAS 19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 paragraph 30 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail. An amount of R3,846,531 (2015: R3,607,691) was contributed by council in respect of councilors and employees retirement fund. These contributions have been expensed and are included in employee related costs for the year.

In terms of contributions to the fund, the municipality and employee contributions are as follows:

- SALA Pension Fund - Employee (8.6%); Employer (20.78%);
- SAMWU Pension Fund - Employee (8.6%); Employer (18.6%)
- Metropolitan Pension Fund - Employee (8.6%); Employer (18.06%)
- Municipal Gratuity Fund - Employee (8.6%); Employer (18.6%)

Plan Assets

The municipality does not have assets set aside for post employment medical aid benefits fund that qualify as plan assets in terms of the requirements of IAS 19. As such no value has been ascribed to the fair value of plan assets.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

11. Money Market Investments

This relates to money market placements with various financial services institutions. The money is placed on fixed or call accounts. The investment period averages 60 days. The average interest rates for the current year were 5.83% (2015: 5.45%).

Money Market Investments

| | | |
|----------------------------|----------------|------------------|
| Nedbank (Various Accounts) | 80 923 | 77 827 |
| Absa (Various Accounts) | 536 593 | 1 641 699 |
| | 617 516 | 1 719 526 |

12. Inventories

| | | |
|-------------------|---------------|----------------|
| Consumable stores | - | 40 044 |
| Water | 91 267 | 168 074 |
| Stands for sale | 7 864 | 659 000 |
| | 99 131 | 867 118 |

12.1 Non - Financial information - Quantities of Water (Kilolitres)

| | | |
|----------------------|---------------|---------------|
| Stoordam Stand | 3 564 | 3 402 |
| Utlwanang | 232 | 228 |
| Bloemhof Reservoir 1 | 7 500 | 7 500 |
| Bloemhof Reservoir 2 | 8 250 | 8 125 |
| Tower Reservoirs | 450 | 411 |
| Networks and Pipes | 19 | 19 |
| | 20 015 | 19 685 |

Inventory pledged as security

No inventory was pledged as security for the current and previous year.

13. Trade and other receivables (exchange transactions)

| | | |
|-------------------|----------------|----------------|
| Trade debtors | 290 296 | 91 435 |
| Deposits | 29 618 | 29 618 |
| Other receivables | 455 645 | 96 336 |
| | 775 559 | 217 389 |

Trade and other receivables pledged as security

There were no trade and other receivables pledged as security during the current and prior year.

Possible Fraud Cases

Included in other debtors, is an amount of R255 335 (2015: 255 335) relating to collections that were made the municipality's appointed auctioneer to sell some of the redundant goods and equipment of the municipality. The auction did not, however, deposit the auction proceeds into the municipality's bank account. A case of fraud has been opened.

Other Receivables

Legal Case Debtors

| | | |
|------------------|-----------|-----------|
| Total Debtors | 452 298 | 452 298 |
| Total Impairment | (452 298) | (452 298) |
| | - | - |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

14. Receivables from non-exchange transactions

| | | |
|--------------------------|-----------|-----------|
| Consumer debtors - Rates | 1 100 800 | 1 164 546 |
|--------------------------|-----------|-----------|

Receivables from non-exchange transactions not impaired

Some of the other receivables from non-exchange transactions were not considered to be impaired. At 30 June 2016, R1,100,800 (2015: R1,164,546) were not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
|-------------------|---------|---------|
| 1 month past due | 699 076 | 739 559 |
| 2 months past due | 212 643 | 224 957 |
| 3 months past due | 189 080 | 200 030 |

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R21,912,132 (2015: R23,547,822) were impaired and provided for.

Reconciliation of provision for impairment of receivables from non-exchange transactions

| | | |
|-----------------------|-------------------|-------------------|
| Opening balance | 23 547 820 | 22 456 123 |
| Current year movement | (1 635 689) | 1 091 697 |
| | 21 912 131 | 23 547 820 |

Rates billed

| | | |
|---|------------|------------|
| Assessment Rates (Amount before farmers rebate) | 14 847 461 | 12 789 541 |
|---|------------|------------|

Valuations

| | | |
|--|---------------|---------------|
| Government, residential and commercial | 2 139 264 500 | 2 084 752 455 |
|--|---------------|---------------|

15. VAT receivable

| | | |
|-----|---|-----------|
| VAT | - | 5 157 917 |
|-----|---|-----------|

The municipality is charged VAT on a cash basis. Thus the VAT 201s are based on amount paid and/or collected. However in the ledger the amounts for output and input VAT are accrued when the transaction occurs.

16. Consumer debtors (exchange transactions)

Gross balances

| | | |
|--------------------------------|--------------------|--------------------|
| Electricity | 30 390 481 | 34 398 832 |
| Water | 131 105 854 | 112 192 008 |
| Sewerage | 65 347 546 | 60 087 554 |
| Refuse | 50 495 760 | 46 829 125 |
| Interest (all Service Charges) | 99 255 079 | 78 529 013 |
| Sundry | 4 193 139 | 3 991 676 |
| | 380 787 859 | 336 028 208 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|----------------------|----------------------|
| 16. Consumer debtors (exchange transactions) (continued) | | |
| <u>Less: Allowance for impairment</u> | | |
| Electricity | (27 035 212) | (31 079 528) |
| Water | (123 738 192) | (105 528 047) |
| Sewerage | (62 221 714) | (57 302 347) |
| Refuse | (48 080 348) | (44 656 343) |
| Interest (all Service Charges) | (94 507 316) | (74 957 371) |
| Sundry Debtors | (3 995 158) | (3 805 935) |
| | (359 577 940) | (317 329 571) |
| <u>Net balance</u> | | |
| Electricity | 3 355 269 | 3 319 304 |
| Water | 7 367 662 | 6 663 961 |
| Sewerage | 3 125 832 | 2 785 207 |
| Refuse | 2 415 412 | 2 172 782 |
| Interest (all Service Charges) | 4 747 763 | 3 571 642 |
| Sundry | 197 981 | 185 741 |
| | 21 209 919 | 18 698 637 |
| <u>Electricity</u> | | |
| Current (0 -30 days) | 2 859 622 | 2 754 625 |
| 31 - 60 days | 262 360 | 298 900 |
| 61 - 90 days | 233 287 | 265 779 |
| | 3 355 269 | 3 319 304 |
| <u>Water</u> | | |
| Current (0 -30 days) | 5 099 122 | 4 810 362 |
| 31 - 60 days | 1 200 801 | 981 161 |
| 61 - 90 days | 1 067 739 | 872 438 |
| | 7 367 662 | 6 663 961 |
| <u>Sewerage</u> | | |
| Current (0 -30 days) | 1 985 098 | 1 768 779 |
| 31 - 60 days | 603 822 | 538 023 |
| 61 - 90 days | 536 912 | 478 405 |
| | 3 125 832 | 2 785 207 |
| <u>Refuse</u> | | |
| Current (0 -30 days) | 1 533 936 | 1 379 851 |
| 31 - 60 days | 466 589 | 419 720 |
| 61 - 90 days | 414 887 | 373 211 |
| | 2 415 412 | 2 172 782 |
| <u>Interest (all Services)</u> | | |
| Current (0 -30 days) | 3 015 123 | 2 268 214 |
| 31 - 60 days | 917 134 | 689 941 |
| 61 - 90 days | 815 506 | 613 487 |
| | 4 747 763 | 3 571 642 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

16. Consumer debtors (exchange transactions) (continued)

Other Debtors

| | | |
|----------------------|----------------|----------------|
| Current (0 -30 days) | 121 486 | 117 957 |
| 31 - 60 days | 40 491 | 35 880 |
| 61 - 90 days | 36 004 | 31 904 |
| | 197 981 | 185 741 |

Reconciliation of allowance for impairment

| | | |
|----------------------------------|----------------------|----------------------|
| Balance at beginning of the year | (317 329 571) | (248 120 371) |
| Contributions to allowance | (42 248 369) | (69 209 200) |
| | (359 577 940) | (317 329 571) |

Consumer debtors pledged as security

No consumer debtors were pledged as security. .

Subsequent Adjustments

The Gross Balances of the consumer debtors have been adjusted by receipts of R854,482 that were received during the year and only identified and allocated after year end and hence could not be adjusted on the Debtors Accounts as at year end.

Fair value of consumer debtors

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 34). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

17. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|----------------|-----------|-----------|
| Bank overdraft | (278 014) | (389 303) |
|----------------|-----------|-----------|

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | Cash book balances | | | |
|--|-------------------------|----------------|--------------------|------------------|------------------|----------|
| | 30 June 2016 | 30 June 2015 | 30 June 2016 | 30 June 2015 | | |
| Absa BANK - Current Account (Account No. 1810000844) | (110 085) | 469 154 | - | (608 532) | (787 426) | - |
| Absa BANK - Current Account (Account No. 181046415) | 26 383 | 25 734 | - | 26 384 | 25 734 | - |
| Absa BANK - Current Account (Account No. 4059244467) | 299 257 | 362 389 | - | 299 157 | 362 389 | - |
| Absa BANK - Current Account (Account No. 4053056975) | 4 978 | 10 002 | - | 4 978 | 10 002 | - |
| Total | 220 533 | 867 279 | - | (278 013) | (389 301) | - |

18. Other financial liabilities

At amortised cost

| | | |
|-----------|-----------|-----------|
| DBSA Loan | 5 719 415 | 5 719 415 |
|-----------|-----------|-----------|

The loans relates to various amounts advanced by DBSA for infrastructure assets in prior years. The loan amount is Induplum and no longer attracting any interest and is current.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|------------------|------------------|
| 18. Other financial liabilities (continued) | | |
| <u>Current liabilities</u> | | |
| Development Bank of South Africa | 5 719 415 | 5 719 415 |
| 19. Finance lease obligation | | |
| <u>Minimum lease payments due</u> | | |
| - within one year | 4 297 113 | 4 756 148 |
| - in second to fifth year inclusive | 1 118 305 | 5 415 418 |
| | 5 415 418 | 10 171 566 |
| less: future finance charges | (3 040 329) | (7 095 947) |
| Present value of minimum lease payments | 2 375 089 | 3 075 619 |
| <u>Present value of minimum lease payments due</u> | | |
| - within one year | 1 431 373 | 700 530 |
| - in second to fifth year inclusive | 943 716 | 2 375 090 |
| | 2 375 089 | 3 075 620 |
| Non-current liabilities | 943 716 | 2 375 090 |
| Current liabilities | 1 431 373 | 700 530 |
| | 2 375 089 | 3 075 620 |

It is municipality policy to lease certain motor vehicles and equipment under finance leases, denominated in the presentation currency (Rand).

The average lease term was 3-5 years and the average effective borrowing rate was 13% (2015: 13%).

Interest rates are linked to prime at the contract date while some increase by a fixed margin. Motor vehicle leases have fixed repayments and no arrangements have been entered into for contingent rent whilst furniture leases have a variable interest rate. The repayments increase by an average of 13% per year over the three year period.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

Defaults and breaches

During the current year, there were no defaults or breaches of any finance leases agreements.

Market risk

The carrying amounts of finance lease liabilities are denominated in Rand.

The fair value of finance lease liabilities approximates their carrying amounts.

20. Unspent conditional grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|--|----------------|------------------|
| Department of Arts, sports & Culture (Utlwanang Library) | 600 000 | - |
| Municipal Infrastructure Grant | - | 6 185 745 |
| Integrated National Electricity Programme | - | 575 933 |
| | 600 000 | 6 761 678 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

20. Unspent conditional grants (continued)

Movement during the year

| | | |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 6 761 678 | 5 365 602 |
| Additions during the year | 24 114 000 | 25 522 000 |
| Income recognition during the year | (29 992 708) | (24 125 924) |
| Undefined Difference | (282 970) | - |
| | 600 000 | 6 761 678 |

See note 28 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

21. Provisions

Reconciliation of provisions - 2016

| | Opening Balance | Actuarial (Gains)/Loss | Current Year Adjustment | Interest Cost | Current Service Costs | Expected Benefits to be Paid | Total |
|------------------------------|-------------------|------------------------|-------------------------|----------------|-----------------------|------------------------------|-------------------|
| Environmental rehabilitation | 7 299 829 | - | 395 372 | - | - | - | 7 695 201 |
| Long Service Awards | 3 098 000 | (85 000) | - | 237 000 | 265 000 | (475 000) | 3 040 000 |
| | 10 397 829 | (85 000) | 395 372 | 237 000 | 265 000 | (475 000) | 10 735 201 |

Reconciliation of provisions - 2015

| | Opening Balance | Actuarial (Gains)/Losses | Current Year Adjustment | Interest Costs | Current Service Costs | Expected Benefits to be paid | Total |
|------------------------------|------------------|--------------------------|-------------------------|----------------|-----------------------|------------------------------|-------------------|
| Environmental rehabilitation | 3 788 558 | - | 3 511 271 | - | - | - | 7 299 829 |
| Long Service Awards | 2 778 000 | 130 000 | - | 222 000 | 234 000 | (266 000) | 3 098 000 |
| | 6 566 558 | 130 000 | 3 511 271 | 222 000 | 234 000 | (266 000) | 10 397 829 |

| | | |
|-------------------------|-------------------|-------------------|
| Non-current liabilities | 10 378 201 | 9 922 829 |
| Current liabilities | 357 000 | 475 000 |
| | 10 735 201 | 10 397 829 |

Environmental rehabilitation provision

Council operates two disposal sites. In terms of the Environmental Conservation Act (Act No 73 of 1989), the municipality is supposed to rehabilitate such land upon closure of the dumping site. Provision based on Engineers estimate has been provided.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

21. Provisions (continued)

Long Service Award Provision

The actuarial valuation of the long service award was performed by DT Mureriwa (Fellow of the Actuarial Society of South Africa), on behalf of One Pangea Actuaries (Pty) Ltd.

The long service bonus award provision consists of an obligation to pay out a bonus to qualifying employees in the year the employee attains the required service period. The obligation represents a liability to Lekwa Teemane Local Municipality and the value is represented by the present value of the long service bonus awards expected to be paid in future. The valuation is thus an estimate of the cost of providing long service awards. The actual cost to the municipality will be dependent on the future levels of assumed variables and the demographic profile of the membership. The municipality is required to pay bonuses to its employees for every 5 years of service completed from 10 years to 45 years. This will be in the form of leave days accumulated, that will be encashed immediately.

Valuation assumptions made include Discount Rate of 8.80% (2015: 8.28%), Consumer Price Inflation of 6.51% (2015: 6.01%), Normal Salary Increase of 7.51% (2014: 7.01%) and Net Effective Discount Rate of 1.20% (2015: 1.19%), Mortality SA85-90 (2015: SA85-90)

22. Trade and other payables (exchange transaction)

| | | |
|------------------------------|--------------------|--------------------|
| Trade payables | 229 987 117 | 204 957 877 |
| Payments received in advance | 3 848 180 | 3 327 244 |
| Unallocated receipts | 228 177 | 495 138 |
| Other payables | 1 752 540 | 2 121 354 |
| Accrued leave pay | 4 844 131 | 4 588 710 |
| Accrued bonus | 1 060 769 | 1 037 490 |
| | 241 720 914 | 216 527 813 |

Fair value of trade and other payables

Trade and other payables have not been fair valued. The main reason for that is the major creditors such as Eskom and Auditor-General of South Africa do charge interest on all outstanding invoices. As such the amount owing is thus the fair value. There is no need to re-discount the amounts so as to determine the fair value. The amount owing to Department of Water Affairs cannot be fair valued as the account has not been settled in over 10 years and there is no indication as to when any payment will be made, and based on this it is therefore impracticable to fair value the amount.

23. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

| | At fair value | At amortised cost | Total |
|--|---------------|-------------------|-------------------|
| Other financial assets | 64 633 | - | 64 633 |
| Trade and other receivables from exchange transactions | - | 775 559 | 775 559 |
| Other receivables from non-exchange transactions | - | 1 563 101 | 1 563 101 |
| Consumer debtors | - | 21 209 919 | 21 209 919 |
| | 64 633 | 23 548 579 | 23 613 212 |

Financial liabilities

| | At amortised cost | At cost | Total |
|-----------------------------|-------------------|---------|-----------|
| Other financial liabilities | 5 719 415 | - | 5 719 415 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|--------------------|----------------------------|
| Financial instruments disclosure (continued) | | |
| Trade and other payables from exchange transactions | 237 915 820 | - 237 915 820 |
| Bank overdraft | - 133 092 | 133 092 |
| Trade and other payables from non-exchange transactions | 1 183 074 | - 1 183 074 |
| | 244 818 309 | 133 092 244 951 401 |

2015

Financial assets

| | At fair value | At amortised cost | Total |
|--|---------------|-------------------|-------------------|
| Other financial assets | 70 304 | - | 70 304 |
| Trade and other receivables from exchange transactions | - | 217 389 | 217 389 |
| Other receivables from non-exchange transactions | - | 1 164 546 | 1 164 546 |
| Consumer debtors | - | 18 698 637 | 18 698 637 |
| | 70 304 | 20 080 572 | 20 150 876 |

Financial liabilities

| | At amortised cost | At cost | Total |
|---|--------------------|----------------|--------------------|
| Other financial liabilities | 5 719 415 | - | 5 719 415 |
| Trade and other payables from exchange transactions | 216 527 813 | - | 216 527 813 |
| Bank overdraft | - | 389 303 | 389 303 |
| Other liability 1 | 1 101 157 | - | 1 101 157 |
| | 223 348 385 | 389 303 | 223 737 688 |

Financial instruments in Statement of financial performance

2016

| | At amortised cost | Total |
|---|---------------------|---------------------|
| Interest income (calculated using effective interest method) for financial instruments at amortised cost | 296 318 | 296 318 |
| Interest expense (calculated using effective interest method) for financial instruments at amortised cost | (1 493 877) | (1 493 877) |
| Impairment loss | (55 279 303) | (55 279 303) |
| | (56 476 862) | (56 476 862) |

2015

| | At amortised cost | Total |
|---|---------------------|---------------------|
| Interest income (calculated using effective interest method) for financial instruments at amortised cost | 277 621 | 277 621 |
| Interest expense (calculated using effective interest method) for financial instruments at amortised cost | (1 146 187) | (1 146 187) |
| Impairment loss | (95 972 910) | (95 972 910) |
| | (96 841 476) | (96 841 476) |

24. Consumer deposits

| | | |
|---------------------------------------|-----------|-----------|
| Electricity, Water and Town Hall Hire | 1 183 074 | 1 101 157 |
|---------------------------------------|-----------|-----------|

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

25. Revenue

| | | |
|------------------------------------|--------------------|--------------------|
| Service charges | 117 401 046 | 111 037 794 |
| Rental of facilities and equipment | 830 968 | 785 372 |
| Vehicle Monies | 1 610 761 | 1 665 939 |
| Interest on debtors | 24 550 613 | 23 312 642 |
| Fair Value Adjustments | 443 876 | 2 358 832 |
| Sundry Income | 1 950 552 | 2 469 962 |
| Insurance Claims | 118 109 | 3 662 551 |
| Interest Income | 299 414 | 277 621 |
| Property rates | 11 987 738 | 10 113 392 |
| Government grants & subsidies | 63 148 075 | 60 838 878 |
| Fines | 18 985 200 | 30 223 400 |
| Donations received | 1 196 700 | 1 351 509 |
| | 242 523 052 | 248 097 892 |

The amount included in revenue arising from exchanges of goods or services are as follows:

| | | |
|------------------------------------|--------------------|--------------------|
| Service charges | 117 401 046 | 111 037 794 |
| Rental of facilities and equipment | 830 968 | 785 372 |
| Vehicle Monies | 1 610 761 | 1 665 939 |
| Interest on debtors | 24 550 613 | 23 312 642 |
| Fair value adjustments | 443 876 | 2 358 832 |
| Sundry Income | 1 950 552 | 2 469 962 |
| Insurance Claims | 118 109 | 3 662 551 |
| Interest received - investment | 299 414 | 277 621 |
| | 147 205 339 | 145 570 713 |

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

| | | |
|----------------|------------|------------|
| Property rates | 11 987 738 | 10 113 392 |
|----------------|------------|------------|

Transfer revenue

| | | |
|-------------------------------|-------------------|--------------------|
| Government grants & subsidies | 63 148 075 | 60 838 878 |
| Fines, Penalties and Forfeits | 18 985 200 | 30 223 400 |
| Donations received | 1 196 700 | 1 351 509 |
| | 95 317 713 | 102 527 179 |

Nature and type of services in-kind are as follows:

The municipality offers services in kind to Lekwa Teemane Development Agency. These services include (a) use of the municipality's internet services (b) cleaning of the entity's offices by municipal employees (c) printing services (d) use of offices on a no rental basis.

26. Property rates

Rates received

| | | |
|--------------------|------------|------------|
| All property types | 11 987 738 | 10 113 392 |
|--------------------|------------|------------|

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

27. Service charges

| | | |
|---------------------------------|--------------------|--------------------|
| Sale of electricity | 56 299 156 | 51 318 947 |
| Sale of water | 29 452 925 | 29 467 315 |
| Sewerage and sanitation charges | 18 896 009 | 17 988 372 |
| Refuse removal | 12 752 956 | 12 263 160 |
| | 117 401 046 | 111 037 794 |

28. Government grants and subsidies

Operating grants

| | | |
|-------------------------------------|-------------------|-------------------|
| Equitable share | 39 611 769 | 28 708 000 |
| Expanded Public Works Grants (EPWP) | 1 072 000 | 1 236 000 |
| Finance Management Grant | 1 675 000 | 1 600 000 |
| MIG | 721 850 | 526 262 |
| Disaster Management | - | 319 690 |
| MSIG | 930 000 | 934 000 |
| Dr Ruth District Municipality | - | 8 000 000 |
| Library Grant | 400 000 | 400 000 |
| LG Seta | 22 306 | 4 956 |
| | 44 432 925 | 41 728 908 |

Capital grants

| | | |
|---|-------------------|-------------------|
| Integrated National Electrification Programme | 5 000 000 | 6 634 626 |
| Municipal Infrastructure Grant | 13 715 150 | 12 475 344 |
| | 18 715 150 | 19 109 970 |
| | 63 148 075 | 60 838 878 |

Conditional and Unconditional

Included above are the following grants and subsidies received:

| | | |
|-------------------------------|-------------------|-------------------|
| Conditional grants received | 30 006 106 | 32 130 878 |
| Unconditional grants received | 32 850 000 | 28 708 000 |
| | 62 856 106 | 60 838 878 |

Equitable Share

In terms of the Constitution Act, part of this grant is used to subsidise the provision of basic services to indigent community members. Included in the Equitable Share is an amount of R2 132 000 that was withheld from the Equitable Share allocation of the 2014/15 financial year. An amount of R6 762 000 (2015: R4,002,000) was withheld from the current year allocation due to unspent MIG grants.

All registered indigents receive a monthly subsidy of R467 (2015: R415), which is funded from the grant.

Financial Management Grant (FMG)

| | | |
|---|-------------|-------------|
| Current year receipts | 1 675 000 | 1 600 000 |
| Conditions met - transferred to revenue | (1 675 000) | (1 600 000) |
| | - | - |

The grant was used for operational and capital purposes, which included payment of interns salaries and other budgetary reforms.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

28. Government grants and subsidies (continued)

Department of Sports, Arts and Culture

| | | |
|---|----------------|-----------|
| Current-year receipts | 1 000 000 | 400 000 |
| Conditions met - transferred to revenue | (400 000) | (400 000) |
| | 600 000 | - |

Conditions still to be met - remain liabilities (see note 20).

The grant is provided for the purpose of the operational expenses of the library's.

Municipal Infrastructure Grant (MIG)

| | | |
|---|--------------|------------------|
| Balance unspent at beginning of year | 6 185 745 | 5 035 353 |
| Current-year receipts | 14 437 000 | 14 152 000 |
| Amount withheld | (6 185 745) | - |
| Conditions met - transferred to revenue | (14 437 000) | (13 001 608) |
| | - | 6 185 745 |

The grant is used for the construction or resealing of road infrastructure within the municipal boundaries.

The unspent portion from 2014/15 was withheld from the 2015/16 allocation of the Equitable share

Integrated National Electricity Programme (INEP)

| | | |
|---|-------------|----------------|
| Balance unspent at beginning of year | 575 933 | 10 559 |
| Current-year receipts | 5 000 000 | 7 200 000 |
| Conditions met - transferred to revenue | (5 575 933) | (6 634 626) |
| | - | 575 933 |

Conditions still to be met - remain liabilities (see note 20).

The grant was used to finance electricity related transactions or projects in the municipal areas, mainly for RDP Houses.

The unspent portion from 2014/15 was withheld from the 2015/16 allocation of the Equitable share

Disaster Management

| | | |
|---|----------|-----------|
| Balance unspent at beginning of year | - | 319 690 |
| Conditions met - transferred to revenue | - | (319 690) |
| | - | - |

Conditions still to be met - remain liabilities (see note 20).

Expanded Public Works Grant (EPWP)

| | | |
|---|-------------|-------------|
| Current-year receipts | 1 072 000 | 1 236 000 |
| Conditions met - transferred to revenue | (1 072 000) | (1 236 000) |
| | - | - |

Conditions still to be met - remain liabilities (see note 20).

The grant was received from the Department of Co-operative Governance and Traditional Affairs (CoGTA) for the cleaning of the municipal surroundings.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

28. Government grants and subsidies (continued)

Municipal Systems Improvement Grant (MSIG)

| | | |
|--|-----------|-----------|
| Current year receipts | 930 000 | 940 000 |
| Conditions met -transferred to revenue | (930 000) | (940 000) |
| | - | - |

Conditions still to be met - remain liabilities (see note 20).

The grant was meant for system and policy related projects.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

29. Other revenue

| | | |
|-----------------------|-------------------|-------------------|
| Licences and Permits | 1 610 761 | 1 665 939 |
| Interest on Debtors | 24 550 613 | 23 312 642 |
| Fair Value Adjustment | 443 876 | 2 358 832 |
| Sundry Income | 1 950 552 | 2 469 962 |
| Insurance Claims | 118 109 | 3 662 551 |
| | 28 673 911 | 33 469 926 |

Significant amounts included in other revenue arising from exchanges of goods or services are as follows:

| | | |
|-------------------|----------------|----------------|
| Tender Deposit | 295 143 | 180 600 |
| Cemetery Fees | 214 326 | 222 210 |
| Cable Connections | 96 775 | 187 870 |
| | 606 244 | 590 680 |

Significant amounts included in other revenue arising from non-exchange transactions is as follows:

| | | |
|------------------------|---------------|---------------|
| Valuation Certificates | 14 058 | 16 929 |
| Clearance Certificates | 1 560 | 13 167 |
| | 15 618 | 30 096 |

Transfers

| | | |
|-----------------|---------------|---------------|
| Healthy Subsidy | - | 28 216 |
| | 15 618 | 58 312 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|------------------------------------|-------------------|-------------------|
| 30. General expenses | | |
| Advertising | 270 749 | 353 735 |
| Auditors remuneration | 2 349 280 | 2 410 993 |
| Bank charges | 322 819 | 287 424 |
| Consulting and professional fees | 9 459 859 | 4 573 543 |
| Consumables | 75 298 | 63 868 |
| Entertainment | 130 822 | 220 192 |
| Development Agency Assistance | 567 344 | 484 633 |
| Insurance related costs | 817 334 | 1 331 893 |
| Community development and training | 246 326 | 251 175 |
| Magazines, books and periodicals | - | 18 322 |
| Motor vehicle expenses | 1 305 071 | 1 224 904 |
| Pest Control & Poison | 19 305 | - |
| Licensing | 60 637 | 332 527 |
| Postage and courier | 12 965 | 12 254 |
| Printing and stationery | 652 831 | 783 011 |
| Promotions | 54 875 | 35 817 |
| Protective clothing | 247 931 | 62 771 |
| Indigent subsidy | 19 452 696 | 17 681 815 |
| Staff welfare | - | 201 458 |
| Subscriptions and membership fees | 23 939 | 585 821 |
| Telephone and fax | 333 039 | 451 093 |
| Training | 687 478 | 734 089 |
| Subsistence & Travel | 1 019 411 | 2 517 961 |
| Plants and seeds | 137 620 | - |
| Stock loss | - | 49 239 |
| Number plates | - | 11 400 |
| Strategic Planning workshop | 73 050 | 135 863 |
| Stores and material | 88 360 | 45 948 |
| Special programmes | 949 | 276 390 |
| Pauper burials | 89 413 | 52 339 |
| Chemicals | 287 779 | 1 989 188 |
| Municipal accounts | 4 831 612 | 523 976 |
| Painting of traffic signs | 403 983 | 482 620 |
| | 44 022 775 | 38 186 262 |

31. Operating deficit

Operating deficit for the year is stated after accounting for the following:

| | | |
|---|------------|------------|
| Depreciation on property, plant and equipment | 17 959 914 | 22 873 009 |
| Employee costs | 52 648 850 | 52 166 219 |

32. Employee related costs

| | | |
|---|-------------------|-------------------|
| Basic | 24 014 935 | 25 418 206 |
| UIF | 260 886 | 275 263 |
| Leave pay provision charge | 2 716 408 | 1 999 216 |
| Pension Fund | 7 493 185 | 7 385 256 |
| Overtime | 2 754 847 | 2 210 488 |
| Current Service Costs | 1 124 000 | 861 000 |
| Housing benefits and allowances | 1 431 861 | 804 404 |
| Vehicle Allowance | 2 673 232 | 2 505 078 |
| Telephone Allowances | 134 771 | 219 300 |
| Actuarial (gains)/losses | (207 147) | 680 142 |
| Interest Cost - Post Retirement Benefit | 2 015 000 | 2 050 000 |
| | 44 411 978 | 44 408 353 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

32. Employee related costs (continued)

Remuneration of Municipal Manager

| | | |
|-----------------------|----------------|----------------|
| Annual Remuneration | 582 552 | 194 184 |
| Acting Allowance | - | 675 299 |
| Car/Vehicle Allowance | 150 000 | 50 000 |
| Housing Allowance | 207 374 | 69 125 |
| Telephone Allowance | 18 000 | 6 000 |
| | 957 926 | 994 608 |

Remuneration of Chief Finance Officer

| | | |
|------------------|---------|---------|
| Acting Allowance | 437 999 | 366 218 |
|------------------|---------|---------|

The municipality has not had a permanent Chief Finance Officer for the whole financial period and only an acting allowance has been paid out

Remuneration of Corporate Services Director

| | | |
|-----------------------|----------------|----------------|
| Annual Remuneration | 469 243 | 468 986 |
| Housing Allowance | 190 963 | 176 697 |
| Car/Vehicle Allowance | 120 000 | 120 000 |
| Telephone Allowance | 14 400 | 14 400 |
| | 794 606 | 780 083 |

Remuneration of Technical Services Director

| | | |
|---------------------|----------------|----------------|
| Annual Remuneration | 494 046 | 535 837 |
| Housing Allowance | 217 653 | 223 882 |
| Vehicle Allowances | 110 000 | 120 000 |
| Telephone Allowance | 13 200 | 14 400 |
| | 834 899 | 894 119 |

Remuneration of Community Services Director

| | | |
|---------------------|----------------|----------------|
| Annual Remuneration | 482 650 | 478 957 |
| Housing Allowance | 120 000 | 135 389 |
| Vehicle Allowance | 199 896 | 173 264 |
| Telephone Allowance | 14 400 | 14 400 |
| | 816 946 | 802 010 |

33. Remuneration of councillors

| | | |
|------------------------|------------------|------------------|
| Mayor's allowance | 833 366 | 758 494 |
| Councillors allowances | 3 561 130 | 3 162 334 |
| | 4 394 496 | 3 920 828 |

In-kind benefits

The Executive Mayor is full-time. He is provided with an office and secretarial support at the cost of the Council.

34. Debt impairment

| | | |
|-------------------------------------|------------|------------|
| Increase in provision for bad debts | 55 741 604 | 95 972 910 |
|-------------------------------------|------------|------------|

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|--|------------------|------------------|
| 35. Investment revenue | | |
| <u>Interest revenue</u> | | |
| Bank | 38 001 | 36 715 |
| Money Market Investments | 261 413 | 240 906 |
| | 299 414 | 277 621 |
| 36. Depreciation and amortisation | | |
| Property Plant and Equipment | 17 959 914 | 22 873 009 |
| 37. Finance costs | | |
| Non-current borrowings | 8 851 101 | 6 980 750 |
| Other interest paid | 75 585 | 549 |
| | 8 926 686 | 6 981 299 |

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2015: R 1 146 187).

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|--|-------------------|----------------------|
| 38. Auditors remuneration | | |
| Fees | 2 349 280 | 2 410 993 |
| 39. Contracted services | | |
| Other Contractors | 6 086 216 | 6 805 759 |
| 40. Bulk purchases | | |
| Electricity | 45 744 533 | 40 230 133 |
| Water | 18 084 896 | 14 616 092 |
| | 63 829 429 | 54 846 225 |
| 41. Cash generated from (used in) operations | | |
| Deficit | (14 772 763) | (275 646 241) |
| Adjustments for: | | |
| Depreciation and amortisation | 17 959 914 | 22 873 009 |
| Loss on Disposal | 4 946 135 | - |
| Donations | (1 196 700) | (1 351 509) |
| Interest on Debtors | (24 550 613) | (23 312 642) |
| Fair value adjustments | (443 876) | (2 358 832) |
| Debt impairment | 55 741 604 | 95 972 910 |
| Movements in Traffic Fine Debtors | (277 769) | (2 881 010) |
| Movements in retirement benefit assets and liabilities | 1 962 000 | 2 159 000 |
| Movements in provisions | 337 372 | 787 987 |
| Other Non Cash Items | (7 913 317) | 6 449 966 |
| Changes in working capital: | | |
| Inventories | 767 987 | (16 931) |
| Trade and other receivables (exchange transactions) | (558 170) | 950 711 |
| Consumer debtors | (42 728 924) | (58 041 974) |
| Other receivables from non-exchange transactions | 63 746 | (146 478) |
| Trade and other payables (exchange transaction) | 25 193 101 | 33 884 967 |
| VAT | 11 170 752 | (10 375 008) |
| Unspent conditional grants | (6 161 678) | 1 396 076 |
| Movement in Consumer deposits | 81 917 | 104 144 |
| | 19 620 718 | (209 551 855) |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|-------------------|-------------------|
| 42. Commitments | | |
| <u>Authorised capital expenditure</u> | | |
| <u>Approved and Contracted for</u> | | |
| • Property, plant and equipment | 5 513 159 | 10 006 076 |
| <u>Not yet contracted for but authorised by accounting officer</u> | | |
| • Property, plant and equipment | 44 536 000 | 17 084 400 |
| <u>Total capital commitments</u> | | |
| Approved and contracted for | 5 513 159 | 10 006 076 |
| Not yet contracted for and authorised by accounting officer | 44 536 000 | 17 084 400 |
| | 50 049 159 | 27 090 476 |

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

43. Contingencies

(a) Jaurum Construction & Projects: The plaintiff alleges that it rendered work for the municipality and did not receive payment. The defendant disputes the claim due to the fact that procurement process was not followed and the services rendered on a property not belonging to municipality. Estimated financial exposure is R230,476.32

(b) T de Kock: Matter relates to Approval of Building Plans. The matter has not been advanced by Mr De Kock or his attorneys since March 2016. Financial exposure cannot be estimated

(c) Bloemhof District Agricultural Union: The defendant disconnected electricity supply. The plaintiff sort recourse from the High Court. Financial exposure cannot be estimated

(c) Some of the municipality's officials have leave days which are more than 48 days. In terms of the Basic Conditions of Employment, a municipal official can only accrue up to a maximum of 48 days. However, there may be reasons for the accrual of more than the prescribed limits. In such cases, on resignation/retirement etc some or all of such employees may be paid their excess leave days. In lieu of this, the municipality has a contingent liability relating to the excess leave days (days above the prescribed 48 days). As at 30 June 2016, the amount relating to the excess days was R3,851,911.

Contingent liabilities - Environmental Act

In terms of the Environmental Act, the municipality is responsible for a number of environmental related transactions that may take place in its jurisdiction. This gives rise to contingent liabilities. However, the nature of such transactions cannot be estimated both financially and the number of occurrence, if any are to occur. Whilst the municipality is not aware of such liabilities, the following are the key transactions:

- contingent liabilities relating to fines that may be imposed by the Department of Environmental Affairs as a result of illegal dumping by the municipal residents.
- penalties relating to raw sewerage or sewerage not properly treated being released to the nearby rivers or dams.
- penalties relating to lack of proper security at the municipal's dumping site or lack of monitoring waste being dumped there as some waste should be dumped in certain specified ways so as to avoid related healthy hazards e.g. medical waste.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

44. Related parties

Relationships

Key Management

Controlled entities

Refer to note 32 and note 33

Refer to note 7

Apart from the foregoing, there are no other known related party transactions that took place during the year.

Related Party Transactions

Amounts included in Trade Payable regarding related parties

| | | |
|--|---------|---------|
| Lekwa Teemane Development Agency (Pty) Ltd | 350 000 | 352 244 |
|--|---------|---------|

Amount included in General Expenses

| | | |
|--|---------|---------|
| Lekwa Teemane Development Agency (Pty) Ltd | 567 344 | 484 633 |
|--|---------|---------|

This relates to funding provided to Lekwa Teemane Development Agency (Pty) Ltd as the municipality's contribution towards the agency's operations. The funding was at an arms length basis/transaction.

45. Change in estimate

Property Plant and Equipment

The remaining useful life of certain roads, pavements, bridges and stormwater was estimated in 2014/15 to be 1 year. In the current period management have revised their estimate to 2.5 to 7 years. The effect of this revision has decreased the annual depreciation charge for the current and future years by R 34 767

There is no impact on the cash flow statement (non-cash adjustment)

Computer Equipment

The remaining useful life of certain computer equipment was estimated in 2014/15 to be 1 year. In the current period management have revised their estimate to 2.25 years. The effect of this revision has decreased the annual depreciation charge for the current and future years by R 1 068

There is no impact on the cash flow statement (non-cash adjustment)

Office Equipment

The remaining useful life of certain office equipment was estimated in 2014/15 to be 1 year. In the current period management have revised their estimate to 2.25 years. The effect of this revision has decreased the annual depreciation charge for the current and future years by R 10 214

There is no impact on the cash flow statement (non-cash adjustment)

46. Prior Year Errors

Certain comparatives have been corrected due to errors relating to the previous financial year. The following is an analysis of the prior year errors.

.

Land: During the verification process it was noted that some items of Land should have been transferred to Inventory and a realisable value of zero since this Land is being developed for RDP houses. Furthermore certain Land was disposed of in prior years but were still on the asset register. Some items of Land were also found that were not recorded by the municipality.

Buildings: Items of buildings were found during the verification that were not on the register. Furthermore items of buildings that were on the register could not be located.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

46. Prior Year Errors (continued)

Plant and Machinery: During the 2014/2015 year transformers were acquired by the municipality. However these transformers were incorrectly allocated to Plant and machinery instead of Electricity assets.

Furniture and Fittings: During the 2013/2014 financial year the municipality disposed various assets due to certain unrest and these assets were thought to have been destroyed during this unrest. However during the physical verification that was conducted in the 2015/2016 financial year it was noted that the following assets that were included in the disposal of 2013/2014 was still in use and working order.

Motor Vehicles: During the 2014/2015 financial year the Dr. Ruth Segomotsi Mompati District Municipality donated a refuse collection truck to the municipality. However this truck was not recorded in the asset register and was not included as part of the Property, Plant and Equipment Note. This resulted in the cost, depreciation, accumulated depreciation and the carrying value for motor vehicles been understated during the 2014/2015 financial year.

Office Equipment: During the 2014/2015 year certain office equipment reached the end of their lease term and no longer met the definition of Property, Plant and equipment however these items were still disclosed in the Cost and Accumulated Depreciation for office equipment.

Computer Equipment : During the 2013/2014 financial year the municipality disposed various assets due to certain unrest and these assets were thought to have been destroyed during this unrest. However during the physical verification that was conducted in the 2015/2016 financial year it was noted that the following assets that were included in the disposal of 2013/2014 was still in use and working order.

Community Assets: Items of were found during the verification that were not on the register. Furthermore items that were on the register could not be located.

Electricity: During the 2014/2015 year transformers were acquired by the municipality. However these transformers were incorrectly allocated to Plant and machinery instead of Electricity assets. Furthermore certain electricity meters that should have been expensed in prior periods were incorrectly capitalised to Plant and Machinery during the 2013/2014 financial year. Certain new items were also found that were not recorded in the asset register previously. Items of electricity were also written off that could not be located.

Roads, pavements, bridges and stormwater: Items of were found during the verification that were not on the register. Furthermore items that were on the register could not be located. Certain items were removed since they belonged to the province.

Work In Progress: During the 2014/2015 financial year projects as well as financial periods prior to the 2014/2015 year that were completed however they were no transfers done from the Work in progress balance to the respective classes of Property Plant and equipment

Heritage Assets: During the 2015/2016 financial year as part of the asset verification process 3 items were located that meet the definition of Heritage assets. However it was noted that these assets were not included on the asset register nor were they accounted for as heritage assets.

VAT Receivable: Adjustment relates to VAT on sundry income that was not initially accounted for.

Trade and Other Payables: Adjustment relates to understatement of Expenditure in the Ledger

Consumer Debtors: Adjustment relates to the recomputation of the debtors impairment.

Sundry Income: Adjustment relates to VAT that was not initially accounted for

Licenses and Permits: Adjustment relates to VAT that was not initially accounted for

Employee Cost: Adjustment relates to VAT on subsistence and travelling that was originally not accounted for

Interest on Creditors: Adjustment relates to interest on the auditor General account that was not accounted for.

Bulk Purchases: The adjustment relates to wheeling/ 3rd party wheeling charges that were originally not accounted for.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

46. Prior Year Errors (continued)

Contracted Services: Adjustment relates to VAT that was not initially accounted for.

Debt Impairment: Adjustment relates to the recomputation of the debtors impairment.

General Expenses: Adjustment relates to prior year advertising expenses accounted for in the wrong accounting period

Depreciation: Adjustment relates to restatement of Property Plant and Equipment

Statement of financial position

| | | |
|--|---|---------------|
| Land | - | (94 122 364) |
| Buildings | - | 3 884 701 |
| Plant and Equipment | - | (299 962) |
| Furniture and Fittings | - | 5 086 |
| Motor Vehicles | - | 1 167 958 |
| Computer Equipment | - | 104 139 |
| Community | - | (1 120 207) |
| Electricity | - | 10 989 372 |
| Roads, Pavement, Bridges and Storm Water | - | (218 168 994) |
| Work In Progress | - | (4 511 082) |
| Heritage Assets | - | 170 000 |
| Other receivable from non- exchange transactions | - | (1 016 223) |
| Consumer Debtors | - | (7 733 323) |
| VAT receivable | - | (1 077 565) |
| Trade and Other Payables | - | 22 344 |

Statement of Financial Performance

| | | |
|----------------------------|---|-------------|
| Property Rates | - | 2 424 936 |
| Service Charges | - | 3 356 718 |
| License and Permits | - | 233 232 |
| Sundry Income | - | 345 795 |
| Insurance Claims | - | 512 757 |
| Donations received | - | (1 351 509) |
| Remuneration of Councilors | - | (333 426) |
| Finance Cost | - | 62 114 |
| Bulk Purchases | - | (28 114) |
| Contracted Services | - | 43 100 |
| Debt Impairment | - | 8 705 035 |
| General Expenses | - | 49 500 |
| Depreciation | - | 768 562 |
| Contracted Services | - | (28 587) |
| General expenditure | - | (392 619) |
| | - | - |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

47. Risk management

General Objectives, Policies and Processes

The municipality's activities expose it to a variety of financial risks namely market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Council has the overall responsibility for the determination of the municipality's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Accounting Officer. The Accounting Officer receives regular reports from the Directors through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The municipality's internal auditors also review the risk management policies and processes and report their findings to the Audit Committee. The overall objective of Council is to set policies that seek to reduce risks as far as possible without unduly affecting the Municipality's competitiveness and flexibility. Further details regarding these policies are set out below:

The gearing ratio at 2016 and 2015 respectively were as follows:

Total borrowings

| | | | |
|---------------------------------|----|--------------------|--------------------|
| Finance lease obligation | 19 | 2 375 089 | 3 075 620 |
| Other financial liabilities | 18 | 5 719 415 | 5 719 415 |
| | | 8 094 504 | 8 795 035 |
| Less: Cash and cash equivalents | 17 | (278 014) | (389 303) |
| Net debt | | 8 372 518 | 9 184 338 |
| Total equity | | 111 459 787 | 454 242 939 |
| Total capital | | 119 832 305 | 463 427 277 |

Market Risk

Market risk arises from the Municipality's use of interest bearing and tradable financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or other market factors (other price risk).

Fair value and cash flow interest rate risk.

The Municipality is exposed to cash flow interest rate risk from long-term borrowings at variable rate. It is currently the municipality policy that all of the municipality's borrowings (including short-term overdraft facilities and finance lease payables) are at floating rate of borrowings. Further, all of the municipality's borrowings are denominated in South African Rands. Although Council accepts that this policy neither protects the municipality entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

The municipality analyses the interest rate exposure on a regular basis, at minimum annually. However, sensitivity analysis where simulations are used is not performed. The level of the municipality's borrowings does not warranty performance of this (cost benefit analysis). Further, the municipality does not have the competences to perform such analysis and also believes that the non-performance of such analysis does not negatively expose it to huge interest rate risk exposure. Thus, because simulations are not performed the impact on surplus or deficits and net assets of any basis-point shift (based on the maximum reasonable expectation of changes in interest rates) cannot be determined.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015

47. Risk management (continued)

Liquidity risk

Liquidity risk arises from the municipality's management of working capital, finance charges and principal repayments on its debt instruments. It is the risk that the municipality will encounter difficulty in meeting its financial obligations as they fall due. The municipality's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period long enough to cover the obligations. The municipality also seeks to reduce liquidity risk by using floating interest rates (and hence cash flows) on all its long-term borrowings. This is further discussed in the 'interest rate risk' section. Council receives cash flow projections on a regular basis as well as information regarding cash balances and (as noted above) the value of the municipality's investments. At the end of the financial year, these projections indicated that the municipality expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down on its agreed R1, 000,000 overdraft facility. However, in the prior period, the municipality did not have enough reserves to meet all its obligations. The liquidity risk of the municipal entity is also managed by the parent municipality. Where the municipal entity needs facilities, approval must be sought from the Accounting Officer. Where the amount of the facility is above a certain level, agreement of the board is needed.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For trade payables, they are due and payable on receipt of the invoice. Thus, in the absence of any other arrangements, all balances due as at year end are disclosed in the "Less than 1 Year" column.

Credit risk

Credit risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The municipality is mainly exposed to credit risk from credit sales and placement with financial institutions. It is the municipality's policy to assess the credit risk of new counterparts, where possible, before entering contracts. Due to the nature of most of our customers, credit limits and ratings for such customers cannot be done.

To mitigate some of the credit risks relating to our consumers, disconnections and restricting the flow of water are used as mechanisms to encourage the consumers to settle their debt. Consumers' accounts are monitored on a monthly basis. In terms of the existing legislation, the municipality has limited options in this regard.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only reputable institutions are used. The municipality does not, however, request for credit ratings.

The municipality does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated. Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in Note 14 and Note 16.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument | 2016 | 2015 |
|---|------------|------------|
| Other financial assets | 64 633 | 70 304 |
| Trade and other receivables (exchange transactions) | 775 559 | 217 389 |
| Receivables from non-exchange transactions | 1 563 101 | 1 164 546 |
| Consumer debtors | 21 209 919 | 18 698 637 |
| Money market investments | 854 125 | 1 719 326 |
| Cash and cash equivalents | - | 867 278 |

Cash and cash equivalents: A significant amount of cash is held with ABSA, who are the municipality's main bankers.

48. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had a deficit of R14,727,763 (2015: R275,646,241) and current liabilities exceeded current assets by R230,999,906 (2015: R201,101,268) during the current year. This poses a greater doubt on the municipality's ability to realise its assets and discharge its liabilities in the normal course of business.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

48. Going concern (continued)

In order to mitigate these negative effects, the municipality is in the process of implementing the following measures, some of which the work has commenced:

- Appointed consultants to perform Revenue Enhancement Strategies and Installation of Pre-paid Automatic Meter Reading, whose results are expected to yield positive results. The consultants have already commenced their work. Further, the appointment of Debt Collectors during the ensuing financial period will further enhance the municipality's mitigating measures regarding these going concern challenges.
- Implementing cost reflective prices and cost cutting measures;
- Implementation of the new valuation roll from the 1st of July 2017. This will greatly improve the municipality's income stream as property rates will be levied on market values.
- Recognition of the municipality's Investment Properties at the current market values based on the new valuation roll in the ensuing financial period. This will greatly improve the balance as these assets are recognised at normal/historical amounts, some of which were determined more than 15 years ago.
- Unbundling and valuation of infrastructure in the ensuing financial period.
- Continued support from National Treasury and other government departments (national or provincial) as the municipality is a public entity. This will be further coupled by the MISA Programme, which has already commenced.

49. Events after the reporting date

The term for the current Councillors ended on 5th of August 2016 in terms of section 26 of the Municipal Structures Act. .

The contract for the Technical Services Director was terminated with effect from 19 July 2016.

50. Unauthorised expenditure

| | | |
|-----------------|------------|------------|
| Opening Balance | 60 992 619 | 60 992 619 |
|-----------------|------------|------------|

There was no unauthorised expenditure for the current year, the amount disclosed is the balance carried over from the 2013/14 Financial year.

Unauthorised expenditure has not yet been condoned by Council. A full report will be submitted to Council for considerations. Council recommendations will then taken into account when the deliberations and/or investigations are concluded.

51. Fruitless and wasteful expenditure

| | | |
|--------------------------|-------------------|-------------------|
| Opening Balance | 19 591 386 | 13 818 388 |
| Interest on late payment | 5 748 877 | 5 772 998 |
| | 25 340 263 | 19 591 386 |

Interest on Late Payment: This relates to interest charged on late payments of VAT to SARS and other creditors. Measures are in place to avoid these charges in future.

Fruitless and wasteful expenditure will be presented to Council for consideration of condement.

52. Irregular expenditure

| | | |
|---|-------------------|-------------------|
| Balance at the Beginning of the year | 59 794 413 | 47 577 444 |
| Add: Irregular Expenditure - current year | 1 567 868 | 12 216 969 |
| | 61 362 281 | 59 794 413 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

52. Irregular expenditure (continued)

Details of irregular expenditure – current year

| | | |
|---|--|------------------|
| | Disciplinary steps taken/criminal proceedings | |
| Aqua Agri Solutions | No disciplinary measures have been taken. The transactions have been presented to Council for condonement. | 590 323 |
| Hermans PC Workshop | No disciplinary measures have been taken. The transactions have been presented to Council for condonement. | 307 330 |
| Elegant Home | No disciplinary measures have been taken. The transactions have been presented to Council for condonement. | 92 800 |
| Nooitgedacgt Sandwerke | No disciplinary measures have been taken. The transactions have been presented to Council for condonement. | 64 296 |
| DCH Engineering | No disciplinary measures have been taken. The transactions have been presented to Council for condonement. | 55 711 |
| First Mech | No disciplinary measures have been taken. The transactions have been presented to Council for condonement. | 54 070 |
| Other General Expenses with various suppliers | No disciplinary measures have been taken. The transactions have been presented to Council for condonement. | 403 338 |
| | | 1 567 868 |

Irregular expenditure will be presented to National Treasury and Council for consideration of condonement.

53. Additional disclosure in terms of Municipal Finance Management Act

Distribution losses

| | | |
|----------------------------------|------------|------------|
| Electricity (kilowatts per hour) | 15 520 775 | 16 434 971 |
| Purified Water (kilolitres) | 1 985 587 | 2 552 522 |
| | - | - |

Distribution losses for electricity relates to unaccounted for electricity. This mainly arises from, inter alia, illegal connections to the electricity network and bridging of meters by consumers. During the year 15 520 775 (2015: 16 434 971) kilowatts per hour were lost. This represented 30% (2015: 32%) of the electricity purchases for the year, which has been included in bulk purchases.

Purified Water: This is lost during distribution processes to the consumers. Most of this is caused by burst pipes as greater component of the municipality's water infrastructure network is relatively old. During the year, the losses amounted to 1 985 587 (2015: 2 552 522) megalitres, which constitutes about 23% (2015: 23%) of the purified water.

Whilst this is not a desirable feature, the level of the distribution losses are well within the acceptable norms

Distribution Losses in Rand Values

| | 2016 | 2015 | Total |
|-------------|-------------------|-------------------|-------------------|
| Water | 7 227 537 | 22 309 117 | 29 536 654 |
| Electricity | 12 075 163 | 21 649 672 | 33 724 835 |
| | 19 302 700 | 43 958 789 | 63 261 489 |

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

| | | |
|-------------------|-------------------|-------------------|
| Opening balance | 13 100 704 | 10 480 347 |
| Current year fees | 2 439 279 | 3 300 055 |
| Interest | 1 118 199 | 754 866 |
| Amount paid | (2 699 088) | (1 434 564) |
| | 13 959 094 | 13 100 704 |

PAYE and UIF

| | | |
|----------------------|------------------|------------------|
| Opening balance | 6 262 600 | 3 512 105 |
| Current year charges | 5 841 882 | 5 979 530 |
| Amount paid | (8 976 444) | (3 229 035) |
| | 3 128 038 | 6 262 600 |

Pension and Medical Aid Deductions

| | | |
|----------------------------|----------------|----------------|
| Opening balance | 429 367 | - |
| Current year deductions | 4 826 982 | 5 075 127 |
| Amount paid - current year | (4 816 671) | (4 645 760) |
| | 439 678 | 429 367 |

VAT

| | | |
|----------------|------------------|------------------|
| VAT receivable | - | 5 157 917 |
| VAT payable | 6 012 835 | - |
| | 6 012 835 | 5 157 917 |

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

| 30 June 2016 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|-------------------------|--|--|---------------|
| Councillor I. M. Snyman | 1 553 | - | 1 553 |
| Councillor G. Pencil | 3 016 | 9 462 | 12 478 |
| Councillor K M Segalo | 1 716 | - | 1 716 |
| Councillor D J Muller | 1 485 | - | 1 485 |
| Councillor F. Moleta | 2 545 | 27 518 | 30 063 |
| Councillor P. Modise | 1 715 | - | 1 715 |
| Councillor M.I. Mabala | 23 911 | 21 529 | 45 440 |
| | 35 941 | 58 509 | 94 450 |

| 30 June 2015 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|--------------------------|--|--|----------------|
| Councillor K. Palagangwe | 621 | - | 621 |
| Councillor K. Palagangwe | 242 | - | 242 |
| Councillor T. Mokgosi | 2 372 | - | 2 372 |
| Councillor A. Buys | 7 177 | 186 313 | 193 490 |
| Councillor G. Pencil | 2 063 | 19 160 | 21 223 |
| Councillor J. Segola | 1 672 | 9 302 | 10 974 |
| Councillor F. Moleta | 1 717 | 41 638 | 43 355 |
| Councillor J Joseph | 1 581 | 1 581 | 3 162 |
| Councillor M Majikela | 1 037 | 4 184 | 5 221 |
| Councillor P. Modise | 223 | - | 223 |
| Councillor Snyman | 1 107 | - | 1 107 |
| Councillor K Moepeng | 9 879 | 9 424 | 19 303 |
| Councillor I. Mabala | 9 130 | 34 723 | 43 853 |
| | 38 821 | 306 325 | 345 146 |

54. Utilisation of Long-term liabilities reconciliation

| | | |
|------------------------------|-----------|-----------|
| Long-term liabilities raised | 5 719 415 | 5 719 415 |
|------------------------------|-----------|-----------|

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Due to the municipality's cashflow challenges, no cash has been set aside to repay long-term liabilities.

55. Deviation from supply chain management regulations

The municipality entered into a contract with Mhlopha Security Services cc to provide security services to all municipal properties (both in Bloemhoef and Christiana) from the 1st of December 2012 to 30 November 2014. The company will also install security cameras and alarm systems in the main municipal buildings in Christiana and Bloemhoef. The deviation from supply chain management policy was approved by the Accounting Officer in terms of the MFMA and SCM Guidelines.

56. Assets subject to restrictions

Assets that have been recognised, but which are subject to restrictions, the amount of restriction are as follows:

LEKWA TEEMANE LOCAL MUNICIPALITY

(Registration number NW396)

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015

57. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters.

58. Key Assumptions and Estimates Used

The key assumptions and estimates used are as follows: (1) Long Service Award: A number of valuation variables were used. Should these valuation assumptions be different from the actual variables, the provision for Long Service Award may be different from the one disclosed. (2) Post Retirement Medical Aid Benefit Obligation: By its nature, estimating the Post Retirement Medical Aid Benefit requires use of estimates and significant judgement. This was the case in the computation of the relevant obligation. The key assumptions used are disclosed in note 9. (3) Amounts based on the transactions or balances relating to those disclosed under Accounting Policy 1.1.

59. Fraud Cases

A municipal employee working in the revenue department is alleged to have tempered with the system and removed the basic electricity charge from his account. This resulted in the employee not being billed the basic charge for the year which is a monthly charge of R132 this resulted in the employee not billing some of the monthly basic charges, with a monthly charge of R132 and an estimated annual amount of R1,584, investigations are currently underway. The amount is however considered immaterial and as such no adjustment has been made

Lekwa Teemane Local Municipality
Appendix A

Schedule of external loans as at 30 June 2016

| | Loan Number | Redeemable | Balance at 30 June 2015 | Received during the period | Redeemed written off during the period | Balance at 30 June 2016 | | |
|-----------------------------|-------------|------------|-------------------------|----------------------------|--|-------------------------|------|------|
| | | | Rand | Rand | Rand | Rand | Rand | Rand |
| <hr/> | | | | | | | | |
| Annuity Loans | | | - | - | - | - | - | - |
| <hr/> | | | | | | | | |
| DBSA | | | 5 719 415 | - | - | 5 719 415 | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | 5 719 415 | - | - | 5 719 415 | - | - |
| <hr/> | | | | | | | | |
| Lease Liability | | | | | | | | |
| | 80561690 | 2016-01-01 | 249 153 | - | 249 153 | - | - | - |
| ABSA | 82846927 | 01/09/2015 | 37 509 | - | 37 509 | - | - | - |
| BSA | 82846803 | 01/09/2015 | 19 584 | - | 19 584 | - | - | - |
| BLAQ.M | | 08/11/2017 | 2 769 373 | - | 394 284 | 2 375 089 | - | - |
| | | | - | - | - | - | - | - |
| | | | 3 075 619 | - | 700 530 | 2 375 089 | - | - |
| <hr/> | | | | | | | | |
| | | | - | - | - | - | - | - |
| <hr/> | | | | | | | | |
| | | | - | - | - | - | - | - |
| <hr/> | | | | | | | | |
| | | | - | - | - | - | - | - |
| <hr/> | | | | | | | | |
| Lease liability | | | - | - | - | - | - | - |
| <hr/> | | | | | | | | |
| Annuity loans | | | - | - | - | - | - | - |
| <hr/> | | | | | | | | |
| | | | - | - | - | - | - | - |
| <hr/> | | | | | | | | |
| Total external loans | | | | | | | | |
| Annuity Loans | | | - | - | - | - | - | - |
| | | | 5 719 415 | - | - | 5 719 415 | - | - |

Lekwa Teemane Local Municipality Appendix A

Schedule of external loans as at 30 June 2016

[illegible]

Appendix C

| Segmental analysis of property, plant and equipment as at 30 June 2016 | |
|--|---------------------------------|
| Cost/Revaluation | Accumulated Depreciation |
| <p>Land and buildings</p> <p>Cost</p> <p>Revaluation</p> | <p>Accumulated Depreciation</p> |

[illegible]

Appendix C

Segmental analysis of property, plant and equipment as at 30 June 2016

| Cost/Revaluation | | | | | | Accumulated Depreciation | | | | | | | |
|----------------------------|-------------------|-------------------------------|-------------------|-------------------|-------------------------------------|----------------------------|----------------------------|-------------------------------|-------------------|----------------------|--------------------|----------------------------|---------------------------|
| Opening Balance Rand | Additions Rand | Under Construction Rand | Transfers Rand | Disposals Rand | Other changes, movements Rand | Closing Balance Rand | Opening Balance Rand | Under Construction Rand | Transfers Rand | Depreciation Rand | Disclosure Rand | Closing Balance Rand | Carrying value Rand |
| 719 390 032 | 1 865 681 | 19 172 273 | 7 544 160 | (11 110 004) | - | 736 862 142 | (159 081 000) | - | - | (28 926 765) | 6 163 869 | (181 843 896) | 555 018 246 |

LEKWA TEEMANE LOCAL MUNICIPALITY

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

| Name of Grants | Name of organ of state or municipal entity | Quarterly Receipts | | | | | Quarterly Expenditure | | | | | Grants and Subsidies delayed / withheld | | | | | Reason for delay/withholding of funds | Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act | Reason for noncompliance |
|--|--|--------------------|--------|--------|-----|-----|-----------------------|--------|--------|--------|--------|---|-----|-----|-----|-----|---------------------------------------|--|--------------------------|
| | | Sep | Dec | Mar | Jun | Jun | Jun | Sep | Dec | Mar | Jun | Jun | Sep | Dec | Mar | Jun | | | |
| Equitable Share | National Treasury | 17 749 | 5 731 | 14 000 | - | - | - | 9 370 | 9 370 | 9 370 | 9 370 | - | - | - | - | - | Unsettled Eskom Debt | Yes | |
| | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | Yes | |
| Municipal Infrastructure Grant | National Treasury | 10 008 | 4 000 | 429 | - | - | - | 2 753 | 4 777 | 5 057 | 1 128 | - | - | - | - | - | | Yes | |
| Finance Management Grant | National Treasury | 1 675 | - | - | - | - | - | 1 022 | 125 | 184 | 345 | - | - | - | - | - | | Yes | |
| Municipal Systems Improvement Grant | National Treasury | 930 | - | - | - | - | - | 63 | 19 | 291 | 556 | - | - | - | - | - | | Yes | |
| Intergrated National Electrification Programme | National Treasury | 1 000 | 4 000 | - | - | - | - | 368 | 3 819 | 530 | - | - | - | - | - | - | | | |
| EPWP | National Treasury | 429 | 322 | 321 | - | - | - | 320 | 236 | 301 | 215 | - | - | - | - | - | | | |
| Library Grant | Department of Arts Sport and Culture | 1 000 | - | - | - | - | - | - | 200 | 100 | 100 | - | - | - | - | - | | | |
| District Equitable Share | Dr Ruth Mompoti District Municipality | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | | | |
| | | 32 791 | 14 053 | 14 750 | - | - | - | 13 896 | 18 546 | 15 833 | 11 714 | - | - | - | - | - | | | |

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.